

RAILWAYS ACT, 1921.

PROCEEDINGS OF THE RAILWAY
RATES TRIBUNAL.

SCHEDULES OF STANDARD CHARGES.

THURSDAY, JUNE 19TH, 1924.

SEVENTH DAY.



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PROCEEDINGS OF THE RAILWAY RATES TRIBUNAL.

THURSDAY, JUNE 19TH, 1924.

PRESENT :

W. B. CLODE, Esq., K.C. (*President*).

W. A. JEPSON, Esq.

GEO. C. LOCKET, Esq., J.P.

SEVENTH DAY.

THE SOLICITOR - GENERAL (MR. HENRY SLESSER, K.C.) and Mr. W. BOWSTEAD (instructed by the Treasury Solicitor) appeared on behalf of the Minister of Transport.

THE LORD ADVOCATE (THE RT. HON. H. P. MACMILLAN, K.C.), MR. A. C. CLAUSON, K.C., MR. BRUCE THOMAS and MR. ALFRED TYLOR (instructed by the Honorary Solicitors) appeared for the Railway Companies' Association.

THE HON. R. STAFFORD CRIPPS appeared for the London County Council.

MR. F. G. THOMAS, K.C., and MR. JACQUES ABADY (instructed by Sir Thomas R. Ratcliffe-Ellis) appeared for the Mining Association of Great Britain.

MR. DOUGLAS HOGG, K.C., M.P., and MR. F. J. WROTTESLEY (instructed by Messrs. Vizard, Oldham, Crowder and Coeb) appeared for the Traders' Co-ordinating Committee; The National Association of Railway Travellers; and the following local authorities: The boroughs of Leeds, Cardiff, Oldham, St. Helens, West Ham, East Ham, Croydon, Woolwich, Gravesend, Richmond, Southport, Watford, Leamington, Morecambe, and Rothsay; and the Urban District Councils of: Dartford, Mitcham, Heston and Isleworth, Teddington, Beddington and Wallington, Surbiton, Harrow-on-the Hill, Prestwich, Epsom, Carshalton, Barnet, Hampton, and Bexley Heath.

MR. HERBERT MORRISON appeared for the National Joint Council of the Trade Union Congress and the Labour Party; and for the London Labour Party.

MR. W. G. R. BOYS and MR. HUGH SHAYLER appeared for the Civil Service Confederation.

MR. S. CARLILE DAVIS appeared for the Plymouth Incorporated Mercantile Association.

MR. GEO. DEW, J.P., I.C.C., appeared for the National Association for the Promotion of Cheap Transit.

MR. JACQUES ABADY (instructed by Messrs. Kensholes & Prosser, Aberdare) appeared for the Cardiff Collieries, Limited.

MR. A. MOON appeared for the Midland Association of Blast Furnace Owners.

MR. F. C. BORER represented Messrs. Harrods Staff Council.

MR. EDWIN CLEMENTS (instructed by Messrs. Neish, Howell & Haldane) appeared to watch the proceedings on behalf of various Objectors to the Schedules of Standard Charges.

MR. J. H. WORRALL appeared for the National Anti-Profiteering Society.

Mr. Clauson: Before the proceedings of the Tribunal are resumed, may I mention a matter. I will put it in a sentence or two. On page 7 of "The Times" this morning there appears half a column of a statement commenting upon this Inquiry, and upon the evidence of the gentleman who is in the box now and is about to be further cross-examined. As a matter of fact, I do not think any harm has been done, but we did not wish to pass this over entirely in silence, because I think it is unfortunate that however much the public may be interested in the proceedings before this Tribunal, comments upon the matter while the proceedings are going on should appear in the Press. We feel that it should not form a precedent. I do not wish to make any complaint about this, and I do not think, as I understand, my learned friend Sir Douglas Hogg's clients are responsible for it. The body who are responsible for it are named, and they are not my learned friend's clients.

Sir Douglas Hogg: My learned friend Mr. Clauson told me this morning that he was proposing to make this statement and that he was going to show me the particular article. I have not myself seen it and I know nothing about what is in it, and therefore I am afraid I cannot usefully make any observations upon it.

President: I think Mr. Clauson has done what he desired to do, namely, to bring it to the notice of those who are reporting these proceedings or who are interested in these matters, and there the matter ends.

Sir Douglas Hogg: I am afraid I, too, have to make an application, Sir. I had finished cross-examining Sir William Plender on the last occasion, but on looking through the proceedings I find there are just two points which I should like to ask a question upon. The first is this. You may remember that the first witness who was called, Mr. Quiney, was asked, I think by myself, as to the £60,000,000 which was given by the Government and what that represented. Naturally it might be rather a material matter for us to know, and I did not ask Sir William about it. The other point was that in the cross-examination of Sir William Plender on the last occasion I reminded him of certain advice which he had given the Great Western Railway Company. Unfortunately then he had rather forgotten as to what was the advice he gave them, and I thought possibly the last fortnight might have enabled him to bring the facts back to his memory, and I should like to see whether that fortunate event has happened.

19 June, 1924.]

SIR WILLIAM PLENDER, Bart., G.B.E.

[Continued.]

SIR WILLIAM PLENDER, Bart., G.B.E., Recalled.

Cross-examination by Sir DOUGLAS HOGG continued.

3455. Perhaps you do not know, until you heard me make the statement this morning, but you remember that a sum of £60,000,000 was paid by the Government to the railway companies in respect of their claim against the Government during the period of Control?—Yes.

3456. Mr. Quirey, who was the first witness called, was asked about this, and he told us that you were the negotiator and that you would be here and would be the best person to tell us about it. Unfortunately I omitted to ask you last time. Could you tell the Tribunal how the £60,000,000 was arrived at?

Solicitor-General: Before Sir William answers that question. Sir William Plender will answer what you consider proper, Sir, but of course in a great deal of the negotiations as between the Government and the companies information was given by the companies to the Government on the understanding that it was to be entirely confidential. How far you think it is relevant to this Inquiry I do not know, but it may be that we shall have to reserve our right to intervene, if necessary, with regard to matters when information was given which possibly resulted in the £60,000,000. The whole basis of those negotiations was that the matter was to be treated as strictly confidential. Of course, I am not raising the point for a moment as a question of privilege. Sir William Plender is not my witness, but I mention that so that it may be borne in mind. I do not know how far Sir Douglas Hogg will press certain aspects of this, but a great deal of the negotiations were of an entirely confidential nature as between the companies and the Government.

Sir Douglas Hogg: I have no doubt that the negotiations were confidential, but a figure was arrived at which the public were asked to pay, and have paid, and, as representing the users of the railways I am very much concerned to know what that £60,000,000 represents and in respect of what it was paid. In my submission it will be very difficult to ascertain how the £60,000,000 is to be dealt with in our calculations unless we know what it represents. It is difficult properly to discuss the way in which it ought to be treated. I do not suppose there is any information which the companies gave to the Government in confidence which the Government are going to be asked to disclose, but I am asking Sir William Plender, who is the railway companies' witness, to give to the Tribunal the information which he then gave to the Government.

President: How would you deal with it, Sir Douglas, if Sir William Plender said: Certain information was given to me confidentially by the railways, and having received that information in confidence I was able to make up my mind with regard to this claim and divide it under certain heads. How would you deal with the matter then?

Sir Douglas Hogg: If he were to say that, then I should ask the witness to give me the name of the railway representative who gave him the information, and then I should ask to be allowed to see that gentleman in the box so that he might give us the same information. Of course, Sir William Plender could not give it, but he could tell us the authority from whom the information could be obtained.

President: Perhaps you will proceed with your question, Sir Douglas.

3457. *Sir Douglas Hogg:* If you please, Sir. (To the Witness): You have heard the discussion, and I am always glad to have a discussion with you because you appreciate it as fully as anyone. Do you remember what the question was?—Well, I am unfortunately quite unable to tell you how the £60,000,000 was arrived at. The railway companies never to my knowledge formulated any claim and presented it to the Government. It was a bargain or compromise to settle matters between the railway companies and the Agreement arising under the Control, and possibly any claims under the 1871 Act,

but beyond that it is quite impossible for me to give you any information. You might perhaps allow me to tell you that questions have been asked in the House of Commons about it, and Sir Eric Geddes in June, 1921, said that: "If I were to be rash enough to give details of how I think this sum should be made up, I should be taken in detail, and the railway companies would be assailed because they would not be dividing it in that way, so that we would only get into worse confusion." Previously to that, Mr. Neel said in reply to a question on the 9th June, 1921: "In answer to the first part of my hon. friend's question, I would point out that during the period of Government possession the railway companies charged to Government account current liabilities in respect of their staff superannuation fund of a nature corresponding to those charged as working expenses in 1913. In answer to the second part of the question, the sum of £60,000,000 is, as has been explained by my right hon. friend the Minister of Transport, in the recent debates in the House, a lump sum settlement not specifically referable to particular items of claim."

3458. I follow, of course, that the £60,000,000 was arrived at as a result of bargaining on both sides, and I gather that inasmuch as it settled all the claims the Government must on their side have been furnished with information which justified them in recommending Parliament and the country to pay that amount, and you have heard the Solicitor-General intervene just now to say in fact you did give to the Government information in confidence which they therefore could not disclose. I suppose that was accurate?—I did not give any information; I personally did not do it.

3459. Then the Solicitor-General was misinformed about that?

Solicitor-General: I said that confidential negotiations passed between the Government and the railway companies; I thought questions might be addressed to the witness on that point.

3460. *Sir Douglas Hogg:* Then was there some negotiator other than yourself on behalf of the railway companies? It is suggested, apparently, that confidential negotiations passed between the railway companies and the Government. You say they did not reach yourself; then presumably they must have reached someone else on behalf of the railway companies?—I do not know what may have passed at interviews at which I was not present, but there were occasions when people were present. I remember on one occasion Sir Herbert Walker was present.

Sir Douglas Hogg: Sir Herbert Walker of the London and South Western Railway in those days.

Mr. Jepson: He was the Chairman of the Executive Committee.

Witness: But all I can say is that I have never seen any details of the claim. The negotiations, as you know, in these matters often result in a compromise or bargain figure from which exact details are never formulated.

3461. Who else do you think, other than yourself, negotiated on behalf of the railway companies, with whom confidential communications may have been exchanged through the Government?—That I cannot answer.

3462. Mr. Quirey thought that you were the only person, but the Solicitor-General says you are not; apparently there someone else. I cannot ask the Solicitor-General who it is, but I can ask you?—My position really was that of a mediator to begin with, to bring the railway companies and the Ministry together, and then on behalf of the railway companies, but without any authority to bind them. I discussed with the representatives of the Government the question of quantum, and after many discussions and interviews with the Directors of the railway companies, some of them saw the Government presumably, and this figure was arrived at.

19 June, 1924.]

Sir WILLIAM PLENDER, Bart., G.B.E.

[Continued.]

3463. When one discusses questions of quantum to settle a claim by a number of railways in respect of a number of items presumably in order to arrive at a just quantum the items which are likely to be claimed, the nature of the claims and the amount, must be the subject-matter of discussion. I thought, perhaps, you could help us about this?—I am sorry that I cannot give you any more information. It was a lump sum settlement, and constituted a bargain or compromise.

3464. And, so far as you know, the Government were given no information which would justify them in paying that or any other sum?—Well, I do not know. Information may have been given to them by others, but I did not give it to them.

3465. And you do not know of anyone else having given it to them?—Well, I know, as I mentioned just now, Sir Herbert Walker was present at an interview.

3466. Did he give any information at the interview at which he was present?—I really do not remember; it is sometime ago.

3467. We know that you have other interests to attend to besides railway interests. At any rate, you cannot help us; and, as far as your recollection goes, no information was given by you, or at any interview at which you were present?—I do not remember.

3468. I think that is as far as I can properly ask you. Was there any discussion as to what items it was confined to, or to what items it included—as to what the nature of the claims was?—Well, as far as I can remember, there would have been no doubt general discussions. There would be presumably the claim for arrears of renewals and abstracts A and B in respect of which the companies received 15 per cent. on account. Then there were arrears of maintenance in respect of assets not falling under abstracts A and B, such as hotels, docks, wharves, and so on; and then there was a question about the reinstatement of the 1913 stock of stores which were bought at old prices.

3469. That means to say, an allowance for the extra cost of stores in 1921 as compared with what it was in 1913?—Yes; that was one of the subjects generally mentioned; and then there was the question of abnormal wear and tear due to the heavy traffic which was carried free for the Government. Then there were—I remember it being referred to—claims under the 1871 Act which, if I remember rightly, referred to the interruption or retarding of the progressive growth of the companies. Those generally, as far as I remember, were never put forward specifically by the railway companies or any figure attached to any or all of these items.

3470. Those were the items which apparently were the subject-matter of discussion which constituted the sort of claim the £60,000,000 was designed to cover?—Well, I remember those generally; there might have been others.

3471. Those are all you are able to remember?—I cannot remember any more at the moment.

3472. Now I want to pass, if I may, to the other matter the Tribunal has been good enough to allow me to ask you some questions about. Do you remember on the last occasion that I was able to remind you that you had advised the Great Western Railway Company with regard to the inadequacy of their depreciation fund.

3473. Would you give us the page, Sir Douglas?

3474. *Sir Douglas Hogg*: It is page 163, Sir, at question 3383. You told us on the last occasion that you were consulted by the Great Western Railway Company when you went into the question of their depreciation accounts, but you did not remember how much they set aside. I was able to remind you afterwards, from the Chairman's speech, that it was £5,000,000. You did not remember whether it was a substantial sum or not; you had done it some time ago. Then you referred to the report, and then you think you might have made tentative suggestions, and that you do not remember what you did suggest. Can you remember a little better now?—You are now asking about the composition of the £10,000,000?

3475. I am now asking you about the advice which you gave to the Great Western Railway Company with regard to their depreciation accounts and other reserve funds which I think they set aside £10,000,000 to meet?—Shall I deal, first of all, with the £10,000,000?

3476. If you please.—The transfer of the £5,000,000 to the Great Western depreciation fund when they were preparing their 1923 accounts was composed of the estimated increased cost of renewals which would normally have taken place between 1914 and 1921 as compared with pre-war prices.

3477. That is the estimated increase of the cost of doing the work?—The cost of renewals which had been postponed on account of the war, and also the increased cost of renewals for which provision had been made prior to 1914 on the old prices, that was the £5,000,000. Then the reserve for contingencies, £2,500,000, was a credit which could be drawn upon to supplement the net revenue in a poor year so as to assist in maintaining an even flow of dividend.

3478. That really was a dividend reserve fund?—Yes. Then the remaining £2,500,000 described to meet various liabilities was a provision for Income Tax including the liability under Section 11 (5) of the 1921 Act.

3479. That has the same effect as distributed dividends?—Yes.

3480. The first £5,000,000 seems, perhaps, the most relevant for our inquiry. Do you remember what figure you took in order to compare the difference in prices between pre-war prices and 1922, or was it 1923, prices?—No; this was a figure which was arrived at by the chief accountant of the Great Western Railway Company, and he divided that £5,000,000 over various items of assets, and I accepted his figure as being a reasonable way of appropriating a part of the £10,000,000.

3481. No doubt before you accepted it as reasonable you satisfied yourself that it was done on a proper basis?—Well, I accepted his assurance that it was a reasonable provision to meet the increased cost of renewals which would normally have taken place in the Control years, but which had been postponed.

3482. Are you quite sure that you did not ascertain what percentage he had taken?—I am quite sure about that.

3483. You never heard any figure suggested?—I am quite sure about that.

3484. The difficulty I am in is this. Mr. Cope was in the box, and when I asked him about it he said it was all done under the advice of an expert; which presumably was you, Sir William. Now you say it was all done by himself, you merely accepted what he did. That box and cox arrangement makes it a little difficult for me to see how it was arrived at?—It is the fact that the figure was arrived at by him, and on my inquiring whether in his judgment and with his experience that was a reasonable figure to take for the purpose I have mentioned I accepted it.

3485. So that really he ought to have been able—in fact, he is able to tell us, if he chooses—how he got the figure; and it is not true to say he merely took the figure you advised; you took the figure that he advised?—That is certainly my recollection of it.

3486. You will find Mr. Cope's evidence on page 108. At any rate, your recollection is that, and I am quite sure that you are giving us the best of your recollection?—I wish I could give you more.

3487. Are you quite sure that a figure was not given? The importance of it is this: You have taken a figure of 112½ per cent. comparing 1913 and 1923. If, for instance, a figure of 80 per cent. was then fixed upon as being the right figure, and not 112½ per cent., it would throw a good deal of doubt, at any rate, upon the correctness of taking 112½ per cent.?—I have no recollection whatever of any percentage having been mentioned to me when I concurred in his advising the Chairman to appropriate £5,000,000 out of the £10,000,000 for this purpose.

19 June, 1924.]

SIR WILLIAM FLENDER, BART., G.B.E.

[Continued.]

3488. What really happened was that Mr. Cope said that he thought £5,000,000 was the right amount, and you said to him: Have you satisfied yourself that this really represents a fair estimate of the difference between 1922, was it, or 1923?—1914 and 1921.

3489. Of course, the percentage then would be bigger than it is for 1923 or 1924?—I think it would be.

3490. You said to him: Are you satisfied that the percentage you have allowed in order to get at the difference is sufficient? He assured you that he was satisfied, and you said: "In that case I am prepared to concur"?—I cannot recall now what the conversation was, but I have no doubt I said to him: "Well, I suppose you have satisfied yourself that that is a reasonable figure to take," and I would concur.

3491. I thought that was so. Mr. Jepson was good enough to ask Mr. Cope a little later on page 122 as to whether or not the auditors of the Great Western Railway were satisfied with the expert's report as to the propriety of the figures, and Mr. Cope suggested that the expert he was referring to and the auditors might be the same person. In fact, I think your firm are the auditors?—I am personally the senior auditor.

3492. So that obviously he was telling us then in fact that you, Sir William, were the person responsible for this figure. Now you tell us that he was the

person responsible, and that you merely accepted it from him?—I was not the creator of it.

3493. The only sense in which you are responsible is this that you accepted his assurance that the figure was a proper figure?—That it was a reasonable figure.

3494. And you did not make any personal investigation or personal recommendation to him with regard to it?—No; I concurred in what he had done.

3495. What he told you was sufficient?—Yes.

3496. Then presumably Mr. Cope, if he is able to refresh his memory, could tell us, if he chose, what figure he took?—Well, that is for Mr. Cope to say.

Sir Douglas Hogg: That is quite true. I think that is as far as I am entitled to go. I am obliged to the Tribunal.

3497. *Mr. Jepson:* If my memory serves me correctly, you told us the other day, Sir William, when you spoke of the 112½ per cent. increase for pre-war that that again was not your figure; you did not arrive at it; but you were advised by the accountants that that was a correct figure to take, and Mr. Cope, I suppose, would be one of the accountants who were interested in arriving at the 112½ per cent.?

—Yes, I had a conversation with the group of accountants and I asked them what would be a reasonable figure to take, and with the information they then had available, they said they thought 112½ per cent. would be a reasonable figure.

Cross-examined by Mr. F. G. THOMAS.

3498. I have a few questions which I should like to put to you, Sir William. I think we may take it from the evidence which you gave in chief that you are not quarrelling with the principle that where you set a standard and have to compare with a standard, the standard and the figures that are compared with it should be arrived at on substantially the same basis?—Are you now referring to repairs, renewals and depreciation?

3499. Yes?—Well, I say, taking the three together, repairs, renewals and depreciation, the standard for comparison is the collective figure after taking into account the increased cost of wages and materials and the additional units.

3500. That is what I understand, that you are not quarrelling with the justice of making that comparison, but that you are pointing out that if you do take out these figures upon the basis which you have put to the Tribunal you get figures which are very closely comparable?—Yes.

3501. Now that proposition, of course, depends, in the first place, upon a point which I am not going to pursue after what you have said upon the substantial accuracy under present-day conditions of the 112½ per cent.?—Yes.

3502. But it is also subject, is it not, to the further qualification, I think you very fairly pointed it out, that you are not dealing when you come to fix rates with the whole of the four Groups in one entity, but you have to deal with them as separate Groups, and your comparison is in treating them as a single entity?—Yes.

3503. This is a matter I take it you have not gone into, but which is quite open to your appreciation, that while in the aggregate you might get that substantial equivalent, yet when you are dealing with the various Groups you might have very wide divergencies?—There might be differences, and if they are found to exist they should be adjusted. There will not be any difficulty in the companies doing that.

3504. I think that answer carries the matter as far as I need carry it really on the general proposition. I do not know whether you could help me a little.—I hesitate to put these questions after what you have told my learned friend with regard to the question of the 80 per cent. and the 112½ per cent., but may I assume that—

Mr. Jepson: What do you mean by the 80 per cent.; it was only an assumed figure.

Mr. F. G. Thomas: Yes, it was quite an arbitrary figure, I agree.

Mr. Jepson: The 112½ per cent. has been given in evidence; the 80 per cent. was simply an assumed figure thrown out by Sir Douglas Hogg.

3505. *Mr. F. G. Thomas:* The 112½ per cent. has only been given in evidence in the sense that he accepted that figure; it has not been tested in any way. (*To the Witness:*) Of course, when you are dealing with depreciation and reserves for maintenance and renewals, particularly in the case of programme companies, these are not actually explained; it is a reserve which is made in order to meet the fact that you are dealing with wasting assets?—I quite appreciate your point. As a matter of fact, it may save your time if I tell you that in adding the 112½ per cent. to the debits in 1913 there was included in those debits a sum for depreciation which had not then been spent, and I added it on because it has got to be spent, and it may be when it is spent a little less than 112½ per cent.; it may be a little more, but I had to apply a percentage to the figure, and the figure included that part of the provision made in 1913 which had not actually been spent in that year, and I think I can give you the figure.

3506. I was really passing from the 112½ per cent. I was rather on the point that where you are dealing with these liabilities to make good the wasting of assets the question of the life is really a matter for decision on expert's advice, and the question of the effect on net revenue bears directly on the view which you take as to what is the right life to take with assets of this character. That is so, is it not?—Yes.

3507. Can you, from your experience of the Great Western accounts, tell me whether any change has been made as between 1913 and 1923 in the period of life assigned to the part of the railway undertaking which is dealt with in abstracts A and B?—Well, my recollection is that in 1913 a provision was made on a life basis in connection with locomotives, carriages, wagons, steam-boats, machinery and plant.

3508. Not permanent way?—In 1913 my recollection about the permanent way is this, that the charge was made against revenue for the actual mileage relaid, and a lump sum was added to that which was considered prudent of £80,000.

3509. That is how it was dealt with in that year. How was it dealt with in 1923?—You do not mind me refreshing my memory?

3510. Certainly not.—My assistant, who is more familiar with the details than I am, tells me that in 1923 that same principle was followed but increased

[19 June, 1924.]

Sir WILLIAM PLENDER, Bart., G.B.E.

[Continued.]

by the extra cost of wages and materials; that in fact in 1923 there was not the life basis adopted for the permanent way.

3511. Could you tell me what was the percentage added for the increased cost in that year? It is the same principle, I gather, subject only to an increase—?—I cannot remember what that was. I should think you had better ask one of the Great Western Railway officials.

3512. That could be got, I take it. What you can say now only, of course, applies to permanent way. As regards the other items we were dealing with in 1913, that provision which was made upon the basis of a certain life, rolling stock—?—Locomotives, steamboats and so on.

3513. What I would like to know is whether in that estimate of life there is any change as between 1913 and 1923?—No.

3514. What is the period?—As regards the locomotives, carriages and wagons my recollection is it is 33 years. I am sorry; my assistant tells me that as regards the locomotives it was 33 years in each period, and as regards the carriages and wagons he tells me that, as far as he remembers, the life period for the wagons and carriages was greater than 33, but whatever the period was his recollection is that it was adopted in 1923 *plus* the loading.

3515. The 33 was adopted in 1923?—Yes, for locomotives; and whatever the period was that was adopted in 1913 for the wagons and carriages was adopted in 1913 *plus* the loading for increased costs and other additional units.

3516. Would steamboats be on a different basis?—My assistant tells me that he thinks the principle is the same in each year; as a matter of fact, the provision for steamboats is quite sufficient.

3517. Were these calculations made on the capital cost of the asset, or was the element of replacement cost introduced?—My assistant tells me it was on the capital figure for the rolling-stock.

3518. Original constructional cost?—What was in the capital account.

3519. The element of cost of replacement was not considered in 1913, and is not considered at the present time?—Of course there is a provision made for that in the loading charge which would be taken into account, the increased cost of materials, and then, as I mentioned to Sir Douglas Hogg, there was a sum out of the monies received from the Government of £5,000,000 which was added to the repairs and renewal fund.

3520. That would apply on the permanent way because there you are not dealing with it on a basis of life. You see, there you are dealing with actual cost of relaying *plus* a certain amount?—As a matter of fact, the £5,000,000 was split up into seven items spread over different types of assets, permanent way, locomotives, carriages, wagons, docks and so on.

3521. Yes, I follow that, but what I am not quite clear about is this. Where you are dealing with expenditure you do not write up or write down your capital account. You have to make provision for spreading it over a certain period. Now I gather, and you will correct me if I am wrong, that it is the method of the Great Western accountants when they are dealing with the funds for the replacement of wagons of locomotives to take the original constructional cost, write that off over a period of years and then charge the new expenditure, which may be on a very much higher scale, to capital?—No.

3522. Then I am wrong. I would like to know how the element of replacement cost is introduced into the distribution of the provision for replacement over a period of years?—The renewal fund, as I was pointing out, is built up by a provision in many respects on a life basis on the capital cost. If any article is replaced as an additional cost, such as a locomotive, or a wagon, or a carriage, that would be charged to the fund; the extra charge of that asset would not go into the capital account.

3523. And therefore the provision which is made—the 33 year provision—is not a provision of spreading

the original cost over that period of time, but also it has taken into account the enhanced price at which the replaced rolling-stock will have to be purchased; is that right?—I do not think the provision so far made does provide for the increased cost of renewals, except to the extent that the loading of that provision provides for it.

3524. You were kind enough to tell me a moment ago that the £5,000,000 was definitely allocated over, I think, seven items or heads. If you have the figures before you—I do not want to trouble you otherwise—would you mind giving me the heads under which it was split up?—Permanent way and signals £1,200,000; bridges £1,000,000; stations, etc., £500,000; locomotives £500,000; carriages £300,000; waggon £500,000; docks £1,000,000. Those figures make up the £5,000,000.

3525. I am much obliged. Then am I to take it, Sir William, that no alteration in principle or in life has been made between the way in which this was calculated in 1913 and the way in which it is calculated to-day?—My assistant says he does not think there is any alteration in principle.

3526. I think you said you had not got the loading figure available, but I have no doubt that that can be obtained; I mean it is a definite ascertained percentage?—I have not got it, Mr. Thomas.

Mr. F. G. Thomas: We will get it from the Great Western, I suppose?

3527. Mr. Jepson: Before you go to your next point, may I ask Sir William a question on that? Apart from the loading up of which you spoke just now, which was the allocation of a certain portion of the £5,000,000 to these various accounts, was it the practice of the Great Western Railway in the past, if they were replacing, say, an eight ton waggon with a ten or a twelve ton wagon, to charge it to the depreciation fund, or if that was not sufficient to write it off to revenue?—It was charged to depreciation fund. On that point, of course, there is the question of the charges to revenue for improved locomotives and improved vehicles. The revenue has borne that either directly or through the depreciation funds.

3528. All I wanted to get from you was that it was not the practice in the past to charge it to capital, so far as locomotives, carriages and waggon were concerned?—Never.

Mr. F. G. Thomas: I do attach importance to having that figure of the loading charge. Sir William has not got it, but I should like an opportunity of getting that information, if my friends can assist me. (To the Witness): There is one matter, Sir William, I would like to put a question about. It has been rather puzzling me. I think it was put to you by my learned friend before the adjournment. It is the difference between the figure which is the claim now of the companies as the aggregate of the 1913 net revenue, and the figure which you gave in the table which you placed before the Rates Advisory Tribunal as to the aggregate net revenue in 1913. I do not know whether you have that figure in mind. It was given on the 12th October, 1920, at page 48.

President: What are you quoting from Mr. Thomas?

3529. Mr. F. G. Thomas: I am quoting from a table which was put in by Sir William Plender in evidence which he gave on the 12th October, 1920, which is set out at the bottom of page 48 of the proceedings of that day. It is Table "W.P.3." (To the Witness): I think your attention was called to that table before?

—If you will bear with me for one moment, I am trying to find some note about it.

3530. Have you got the Table now, Sir William?—I have not got that, but I have a memorandum or a note which I prepared after Sir Douglas Hogg had asked me the question. The Statement "W.P.3." to which Sir Douglas Hogg referred on the 2nd instant at question 3528, was an Exhibit supporting my evidence given on the 12th October, 1920, before the Railway Rates Advisory Committee. That is the one you have in mind, I think. The object of that Statement was to show what net sum was available

19 June, 1924.]

SIR WILLIAM PLENDER, BART., G.B.E.

[Continued.]

for the payment of Debenture interest and dividends. The figures were arrived at by aggregating the amount shown at the foot of Account No. 8 of the printed accounts, described as "Total Net Revenue," and deducting therefrom certain fixed charges, such as interest on superannuation funds, rent charges, etc., together with payments to worked lines, which were taken out of Account No. 9. Taking the total net income per Account No. 8 of the printed accounts of the whole of the railway companies of Great Britain and Ireland for the year 1913, the total was £52,828,262. Then I deduct from that the payments to worked lines, the interest on superannuation funds, rent charges, rents, general interest, joint lines, etc., £3,971,811, leaving as available for interest, dividends and general reserve, £48,856,451. That is the figure in that Statement. The term "Total Net Income" is used in the statutory form of Accounts No. 8 to describe in a short phrase the balance of the Account headed: "Revenue Receipts and Expenditure of the whole undertaking," and is a balance before any deduction of fixed charges which appear in No. 9 Account. In my view, therefore, it would be wrong to designate the figure shown as the total of No. 8 Account as net revenue when dealing, as I was dealing then, with the subject of the amount available for Debenture interest and dividends. It will be noticed that while in "W.P.3," the heading is, "Net Revenue of the Companies for the three years 1911, 1912 and 1913," the sub-heading is, "Net Income available for Debenture Interest and Dividends," which is a different figure and has a different meaning from "Total Net Income" as used in the statutory form of Accounts No. 8.

Mr. F. G. Thomas: I thought that might be the explanation. Of course, one would naturally expect your figure—which comprised all the railways of the Kingdom, whereas now there are certain exceptions, so that the four groups are not completely comprehensive—to be rather a bigger figure, taking all the railways, than the group figures. But the difficulty I feel is, that those figures dealt with—

President: When you say "those figures," do you mean the figures in Table 3?

Mr. F. G. Thomas: Yes. Those figures seem to be very closely comparable with the Ministry of Transport figures for the year. I think there is only a difference of about £100,000. I am looking now at the Ministry of Transport figure for 1913, which they give for the total of Great Britain; that is £48,941,206, which is within £100,000 of your figure, Sir William. Therefore, they seem to be very closely comparable; but when one looks at those figures in the subsequent years one finds that those are the figures of Table 8 without, apparently, those deductions to which you have been referring.

President: Do you mean Account 8?

Mr. F. G. Thomas: Yes, Account 8 of the Railway Accounts. Sir William says, as I understand it, that the difference is due to the fact that from the figures in Account 8 certain deductions have been made, as the railway companies have made in the accounts they are now putting before the Tribunal, and that is the difference. But looking at these figures they seem to be the summation of the items in Account 8 without the deductions. I may be wrong. If I am wrong I should be glad to be corrected.

Witness: I do not know what you are looking at, Mr. Thomas, or what relation the figures you may be looking at have to the figures in Table "W.P. 3."

3531. Mr. F. G. Thomas: I have before me the "annual statement for the year 1922 of the Ministry of Transport. On page 27 there is set out the revenue receipts and expenditure on railways and ancillary businesses, Table 8. Then there is the proposed appropriation of that income, Table 9. Now the summation of the figures in No. 8 for the year 1922 is £54,517,637, and that is the figure which is set out side by side with the £48,900,000 for 1913, and the figure for the year 1922. That is on page 142—I do not quite follow.

3532. I am sorry if I am not making it clear?—Are you trying to compare the figure in the Government return, which you say is £54,517,637 on that statement with some other figure?

Mr. F. G. Thomas: I am trying to test it, Sir William. I have no doubt you have looked into it, but I want to follow it. I thought that probably the explanation was that from the total figure the deductions had been made—those that appear in 9—so as to make a lower figure.

President: First Sir William said, "What are you comparing?"—what figure of his with your figure which you have quoted as £54,000,000?—That is what I gathered.

Witness: I do not quite follow.

Mr. F. G. Thomas: To make it quite clear, your figure of £48,800,000 for 1913 compares very closely with the figure of £48,900,000, which is the Ministry of Transport figure for 1913.

Mr. Jepson: On what page is that, Mr. Thomas?

Mr. F. G. Thomas: Page 14.

Mr. Jepson: Of the 1913 accounts?

Mr. F. G. Thomas: It is the 1922 statement. The return is rather convenient because you get the figures for the various years.

Witness: If I might venture to say so—it might save time—the Ministry would be better able to tell you, I think, what you want to know than I could. It is obvious to me that in getting at the £48,856,451 for the year 1913 as shown in Table "W.P. 3" there has been deducted, as I told you, various charges which appear in Account No. 9. Now the £48,000,000 which you have got there for 1913 has not had those rentals and fixed charges deducted, and there may be the Irish railways included in my figure.

3533. But you see they are deducted below?—It may be this—I do not know, because I do not get notice of these questions, and one must examine them. My assistant tells me that the figures which are quoted in Table "W.P. 3" include the Irish railways and these figures of the Ministry do not.

3534. That would bring them still lower, would it not? That would be a correction in the opposite direction?—I could not tell you what the effect might be, because I have not looked into it.

3535. I am not going to ask further about it at this time. I call attention, Sir, to the point. (To the Witness.) Now there is one other matter I want to ask you one or two questions about, and that is with regard particularly to the claim under 53 (1) (b). That was the other matter on which you gave evidence. It is the claim of the railway companies to a fixed percentage addition in arriving at the standard revenue—

President: The 6 per cent.?

Mr. F. G. Thomas: Yes—in respect of the remuneration for capital raised or provided. As I understand the position, Sir William, as regards capital which was actually raised, we can ascertain the terms upon which it was raised and the price paid and the interest. We have not had that return yet, but it is promised. I am not so much concerned as to that at the moment, because we can deal with that; but it is the claim which arises from the fact, or rather from the hypothesis as we may call it, that the free reserves of the companies have been devoted to the discharging of capital expenditure, and to that extent in relief of the issue of new capital.

President: The increase in free reserves since 1913?

3536. Mr. F. G. Thomas: That is the point. What I want Sir William's help upon is a matter of pure accountancy. (To the Witness.) You would expect, would you not, that free reserves would, so far as reasonably practicable, be kept in a liquid condition?—It certainly is desirable to keep liquid reserves as a general principle.

3537. As a general principle?—Yes.

3538. Suppose you had money—not earmarked in any particular way—but moneys derived from various funds, such as depreciation funds, provident funds and superannuation funds?—Those are not free reserves you are talking about now.

19 June, 1924.]

SIR WILLIAM PENNDER, Bart., G.B.E.

[Continued.]

3539. That is so. Suppose it was a question of deciding which of those funds should be kept in liquid assets and which should be kept in forms which are not liquid. Would not you naturally prefer to put your provident funds into the more permanent form and to keep your free reserves in the more liquid form, as a matter of general practice?—I do not know quite what you mean by putting the provident funds into permanent form.

Mr. F. G. Thomas: Let me try and illustrate it.

President: Do you mean to say they ought first to have gone to the depreciation funds and afterwards to the free reserves?

3540. *Mr. F. G. Thomas:* I do not say what they ought to have done. I am rather on what would be the natural thing to do. I do not say it is a matter of obligation. (To the Witness.) I think we should agree on this. You have got a fund on the liability side of your account—call it a contingency fund or call it anything you like—and you have got to have that balanced by certain assets on the asset side of your balance sheet. Now the debit to capital account is not a liquid asset. You would not call debit to capital account a liquid asset in the sense that balance at the bank or moneys invested in Government securities are liquid assets?—The debit to the capital account is expenditure.

3541. Yes; I agree it is expended—well, I hesitate to postulate anything on the theory of balance sheets. But I thought that where you have a debit to capital account, that debit, which represents the investment really of money in the undertaking itself, is treated as an asset and comes into the asset side of the balance sheet and is set off of course on the other side by the various items which come on the liability side?—I am afraid there is a little mixing up there, if I may say so. The amount which is debited to capital account must obviously be only the expenditure which is properly chargeable to capital account. The effect of that debit to capital account is that you have had to find the money to make the expenditure and the finding of that money has reduced the liquid assets—cash in the bank or on deposit.

3542. That is exactly what I was saying. If it had not been spent in the form of capital expenditure it would presumably have been available in some other form of assets?—It would have existed in some other form.

3543. And when it is expended in capital expenditure, while it remains in that condition it cannot fairly be called a liquid asset?—If it has disappeared as a liquid asset and has been charged to capital expenditure it cannot be a liquid asset.

3544. What you mean, as I gather, by a "liquid asset" is an asset which at short notice can be converted into cash?—"Liquid assets" is a general term, but it includes what you have described.

Mr. Jepson: But that expenditure has never been brought into the capital account as such. You do not infer that, do you, Mr. Thomas?

Mr. F. G. Thomas: It has never been converted into capital.

Mr. Jepson: And never brought into the capital account.

Mr. F. G. Thomas: Not into the first three capital accounts, which are really the capital accounts of the company; but it does come into Account No. 4, where it shows that the expenditure on capital account is in excess of the receipts on capital account.

Mr. Jepson: The capital account is shown as overdrawn. That we had some days ago.

3545. *Mr. F. G. Thomas:* Yes. It is a debit. (To the Witness.) Now while the reserves are represented by securities, the interest on those securities goes into the general interest account and would be taken into consideration in arriving at the standard revenue?—Yes; it has been so treated.

Mr. F. G. Thomas: What I want to point out to you, Sir William, is that this feature of financing capital expenditure out of various funds of the company is not a new feature which has arisen as a

result of the difficulty of raising capital during the war or of the high rate which made it imprudent to raise capital. I am looking now at this very useful table for the year 1913, for which we are indebted to the Ministry of Transport. You will see that in 1913 there was a balance to debit of capital account of £35,351,000.

President: For all the railways of Great Britain?

3546. *Mr. F. G. Thomas:* Yes; that is the figure to which I am referring. In 1923 that figure had gone up to £52,000,000, so that there is an increase there of about £17,000,000. Therefore, it was the practice of the railway companies—I am not quarrelling with it, because it is obviously the most economical and prudent way of financing expenditure—to use these funds which at that time were at their disposal for the purpose of financing additional capital expenditure?—They used those funds temporarily for the financing of capital expenditure pending the moment when they thought it would be suitable to issue more capital.

3547. Yes; but you see in 1913 there was a balance to debit on capital account of over £35,000,000, and that money had obviously been obtained at that time not from free reserves, which we have been told by the railway accountants were practically non-existent?—There were some.

3548. Well, very small—but out of the figures which will appear in the balance-sheet on the liability side of the account. You see there were nearly £14,000,000 in the superannuation and provident funds and £8,000,000 in the savings bank. Therefore, there were there the resources which enabled the companies at that time to finance capital expenditure without issuing additional capital?—Even then, Mr. Thomas, it could not be said that the companies intended to let their overdrawn capital account remain at that high figure. I think you must assume—quite fairly I think—that when the directors thought the financial position was suitable for an issue they in their judgment, if they thought fit, would make an issue.

3549. I am not on that point for the moment. I am on your side on the view which you express, but I would rather, if I might be allowed, not break off what I was putting to you now. I will not forget that point, and I will ask you a question or two about it in a moment. What I am anxious, with your assistance, to point out to the Tribunal and to have your view upon is that you see the Investments in 1913—and I think I am right in saying that "Investments" really means investments in Government securities, because substantially that is the whole amount—Investments in 1913 were only £6,615,000. In 1923 Investments were £94,900,000, and being, as I think the accounts show, substantially in Government securities, they are liquid assets, are they not?—What is the question then?

President: Mr. Thomas began by saying that this figure of balance of debit to capital account for 1913 shows that even at that time they were financing the railways out of those funds which they had in their possession.

Mr. F. G. Thomas: Yes. Substantially it must have been out of the superannuation and provident funds, because at that time the free reserves we were told were very small.

President: Now Sir William says: What are they?

3550. *Mr. F. G. Thomas:* What I put to you upon that, Sir William, is that by attributing to the debit of capital account the whole of the addition of free reserves you are in fact depriving the company of the earning capacity of those free reserves. That is what I put to you, and I would like you to make any comment upon it you choose?—Really, Mr. Thomas, I do not understand the way you put the question. You speak of the capital account being debited with the free reserves. As I have told you before, the only debit to capital account is the expenditure.

3551. We are not dealing with capital account at all. I quite agree that capital account is outside

19 June, 1924.]

SIR WILLIAM PLENDER, Bart., G.B.E.

[Continued.]

this matter?—You will forgive me, but I was only using an expression which I thought I heard in your question.

3552. I am very sorry if I put that. Capital expenditure we are dealing with here—expenditure which would fall to be dealt with in capital account; that is it?—You are speaking now of the expenditure which has been made between 1913 and 1923 out of the investment of the free reserves.

3553. Yes. Of course, Sir William, it is present to your mind, as we have been told it again and again, that there is no allocation of these various securities and forms of assets to the various funds?—Yes.

3554. There is no book in the companies' possession, is there, where they show each of these items of liability—superannuation and provident funds, reserves to depreciation funds and all these various funds—and the appropriate securities in which these funds are invested?—They do not set aside particular funds unless there is a statutory provision for them to do so.

3555. Therefore, this allocation to debit of capital account of the free reserves is an arbitrary apportionment, and I want to put a question on that to you as to the effect it has from the point of view of the trader?—I do not want to quibble about anything, but again you have used that expression about free reserves being debited to capital. I think you have done it quite unintentionally. I think I know what you mean. It is that expenditure has been debited to capital out of the realisation of investments which may represent the free reserves?

3556. Yes. The main item, of course, which is attributed to free reserves is not the realisation of securities but the large payment which has been made by the Government in cash and which has been attributed to various funds?—There, again, there is no clearness, if I may very respectfully say so. You are again referring to free reserves in connection, as I understand you, with capital expenditure. What I say is that the capital expenditure is financed partly out of the investments of free reserves and out of capital raised since 1913.

3557. Yes; but if those free reserves instead of being invested in capital expenditure had been invested in Government securities—which I suggest would be a more appropriate investment for free reserves—and the capital expenditure had been derived, as it was in 1913, from the other funds, the effect of that would be that the railway companies would not then be entitled to claim the 6 per cent. which they are now claiming?—I am afraid I do not follow.

Mr. Jepson: To what other funds do you refer?

Mr. F. G. Thomas: Will you look at that table again? Take the savings bank. The savings bank has increased from £8,734,238 in 1913 to £15,400,000 in 1923; that is an increase in those funds to the extent of somewhere in the neighbourhood of £7,000,000. If you look at the superannuation and other provident funds you will see that they have increased from £19,900,000 in 1913 to £34,400,000. Therefore, from the produce of the increase in these funds which were utilised for capital expenditure in 1913 there is ample provision in those increases for meeting the increase of capital expenditure to debit of capital in hand, which is only £17,000,000 in total as between 1913 and 1923.

President: You say they should have financed it out of those funds?

Mr. F. G. Thomas: Yes.

President: Now put the remainder of the question.

3558. Mr. F. G. Thomas: Had they financed the capital expenditure out of those funds it is not claimed, as I understand, by the railway companies that they would be entitled to 6 per cent.?—They are claiming the 6 per cent. on expenditure which was made out of the additions to the free reserves between 1913 and 1922.

3559. It is all on the assumption that the whole of this extra capital expenditure has fallen upon the free reserves and not upon all the other reserves

which the company had available. That is the assumption, is it not?—I think myself that the assumption is a fair and reasonable one, namely, that the capital expenditure has come out of investments of the free reserves. They have gone up, as you know, from £6,000,000 or £7,000,000 to £30,000,000 or £30,000,000.

3560. You think that as a matter of accountancy it would be better policy to put free reserves which might at any time be called up for contingencies, or to make up, as you have explained, shortage of dividend, into the form of capital expenditure rather than to keep those reserves in the form of investment in Government securities where they would be available at any moment. Is that what you say?—No. What I said was that I think it is a reasonable assumption that the capital expenditure between 1913 and 1922 has been made out of the augmentation in that period of the free reserves because they are so largely in excess of what they were in 1913.

President: But Mr. Thomas's point is, I gather, a sort of mixed pool into which they are put—part of it from free reserves' investments and part of it other investments. Mr. Thomas says part of it may be superannuation fund. If it is superannuation fund they ought not to get 6 per cent. upon it. Is that the point?

3561. Mr. F. G. Thomas: Yes, that is the point, substantially. What I am putting to Sir William is this: By attributing the whole of this excess capital expenditure to free reserves, the effect of that is to turn those free reserves, while they remain as free reserves of the company, into a form of capital which inures entirely to the benefit of the railway shareholders?—I do not know that it does.

President: Well, it adds to the capital, and the dividend on whatever that capital earns goes to the shareholders who are in there at that time, there being no addition to the shareholders' capital.

Mr. F. G. Thomas: None whatever.

President: That is your point, whether good or bad. You enhance the dividends of the shareholders who are in there at the time.

Mr. F. G. Thomas: Without any addition to the capital.

Witness: No.

3562. President: I am only putting Mr. Thomas's question. You will deal with it.—I am much obliged to you, Sir. Whilst it is true that the income from a particular investment sold ceases from the time the investment is sold, the putting of the proceeds into capital expenditure enhances the value of the undertaking, and sooner or later it will produce revenue in place of that which was lost in the form of dividend.

3563. Mr. F. G. Thomas: No doubt, and in that accretion of revenue the shareholders will share?—Will share with the trader.

3564. But what I am putting to you, Sir William, is this: If you invest the accretion to superannuation fund in capital expenditure there is no claim on the part of the railway company for additional remuneration?—I do not see why not. It is a claim of capital expenditure. You may take it from whatever source you like, but it is a claim of capital expenditure.

3565. The whole point, I think, has turned on the fact that this has to be provided out of free reserves, which we were told are in the nature of a dividend fund which belongs to the shareholders and which they could divide up amongst themselves at any moment they pleased?—Yes.

3566. That is the argument?—Yes.

3567. Now upon that, Sir William, is the existence of these free reserves of importance to the interests of the company?—I think it is desirable that investments should exist, not only for free reserves which may be available whenever the directors may choose to dispose of such reserves, but also for the dedicated funds too, because expenditure sooner or later must have to be made, and cash, or investments which may be turned into cash, should be available. It would, therefore,

19 June, 1924.]

Sir WILLIAM FLENDER, Bart., G.B.E.

[Continued.]

say that whenever the time is considered suitable by the Board to issue capital to redress the overspent balance, they ought to do so.

3568. Do you really say that with regard to this addition of, say, £18,000,000 to capital expenditure, having regard to the great increases in funds which are available to the Company in respect of provident funds and the large amount of nearly £100,000,000 of investments in Government securities, there is any serious urgency in creating capital to wipe out this £17,000,000 or £18,000,000?—I say that is the objective you always ought to have in view. Take the superannuation fund you have mentioned. The Companies only act as treasurer for those funds, and they should have liquid what is to the credit of those funds. Take, on the other hand, the free reserves; I think the directors would be wise to have them as liquid as possible, because contingencies may arise.

3569. And in order to keep them as liquid as possible, you single out the free reserves so as to provide funds which you put to capital expenditure?—I say that all those funds, free or otherwise, ought to be kept in a different form.

3570. Have you any means of saying what investments are made of these particular funds in the various types of investments?—I think it would be very difficult, if not impossible, to appropriate the investments against particular credits, whether they are dedicated funds or otherwise.

3571. If this claim were to succeed, in the meantime the trader has got to find 6 per cent. on these free reserves for the benefit of the existing shareholders and to go on doing that whatever happens; and in that way he is deprived, as I put it to you—you will correct me if you say that I am wrong—of the earning capacity of those free reserves, and not only do those free reserves make no contribution to the other resources, but he has to pay the 6 per cent. out of rates?—You say he is deprived of the expenditure of moneys representing free reserves. He is deprived of it in this sense, to begin with, that the revenue account of the Company does not include interest on the particular investments sold. That is one stage. But the second stage, which you have not mentioned, is this, that the money so spent which is charged to capital expenditure will be productive of revenue, and the revenue so produced will enter into the accounts.

3572. That result is going to be achieved in process of time?—No one can say when that result will be achieved. Expenditure sometimes fructifies very quickly; sometimes it takes a little time to fructify, and the fructification may be considerable in some cases. If the companies do not get a percentage on that expenditure now, they will not get it at all.

3573. Why? I do not follow that?—Because this is capital expenditure which, under the Act, is after 1913; and, as I understand it, after the standard year is fixed and the subsequent revision takes place, the companies can only get interest on the expenditure that standard period and the subsequent revision. They could not go back to get interest on expenditure charged to capital prior to that first standard period.

3574. No. But should they?—No, I am not saying they should. But my point was this, that if they do not get it now, I do not see how they can get it hereafter.

3575. What I put to you is this: That the effect of doing what you are, as I gather, justifying here, is that the trader not only loses the interest which would otherwise be obtained from the investments of those free reserves in Government securities (or whatever they may be) to which he is entitled, but he has to pay 6 per cent. to the shareholders in respect of these free reserves of which he has been deprived?—You used an expression there that I would like to refer to. I do not want to argue it, because that is a matter for your learned friends probably. But you have talked about the trader being entitled to interest on these investments. I am not so sure about it. I say that is a matter for argument—

3576. If you tell me that, of course, I can understand your position?—I do not give you that as an answer. I tell you it is a question of argument.

Personally I have very grave doubt as to whether the company would not have been entitled to have kept the interest out of the accounts which they have submitted here, in respect to the investments of the additions to the free reserves. It is a question, in my mind, for argument, and that is not my business.

3577. If allowed, this claim would enable you to do it?—I say, whether that view is right or wrong, the charge which they have made to Capital Account in respect of that expenditure they are entitled, as I read it under Clause 58, to get interest upon at an agreed rate.

3578. And the effect of that is what I put to you 10 minutes ago, that the product of these free reserves will inure to the railway shareholders and not to the traders. It puts right what you think is a grievance; but that is the effect?—All that happens is that the trader for the time being loses his interest on the investments sold; but, on the other hand, he will get in Revenue Account the earnings from that capital expenditure. He may not get it at once, but he will get it some day.

3579. There may be many revisions before he does. But what we are dealing with is the state of things as it will be created by the fixation of the revenue; and so far as Standard Revenue and the fixation of Standard Revenue is concerned, this claim, if allowed, would give to the railway shareholders the benefit of the product of the free reserves. They will get the 6 per cent.—The traders will get the benefit of the product of the investments if they continue to be held. If they do not continue to be held, as I tell you, the revenue derived from the standard falls into the account in place of the dividend which has ceased. I do not see any fairer way of doing it. You say if it is done in this way, you deprive the trader of something. If you do not do it in this way you deprive the railway companies of something.

Mr. Jepson: Mr. Thomas, would you address yourself to this point? Supposing the railway companies, instead of putting by this free reserve for contingencies, and so on, had distributed the amount in the year in which it was earned amongst their shareholders, how would the trader then have benefited by those free reserves?

Mr. F. G. Thomas: My answer to that is this. In the first place, it would be so improvident a form of railway finance that I am sure Sir William Flender would not say it was a course he would advocate; because all the railway companies have emphasised the importance to them of keeping adequate free reserves. The Railways Act is not a guarantee; it is merely that they are to have a revenue which, under conditions, as far as they can be foreseen, will yield a particular revenue. But in the event of a strike, or in the event of acute trade depression, that might be disappointing. Therefore, it is essential, as I gather from the views of those who are responsible for the finance of the railways, that there should be an adequate fund reserved which would give the railway stockholders a security that these temporarily adverse circumstances would not affect their dividends, and, therefore, these reserves have to be held, to a substantial extent at any rate, as part of the available assets of the companies, available for the purpose of protecting the interests of the stockholders.

Mr. Jepson: As a matter of sound finance

Mr. F. G. Thomas: Yes, as a matter of sound finance. And what I say is, that under the Railways Act the trader is entitled to take advantage of that. This, of course, is a point of law. He is entitled to the benefit of that accruing interest in relief of rates. It is one of the other sources of revenue which have to be taken into consideration in determining how much has to be raised by rates.

Mr. Jepson: I imagined that was your point.

Mr. F. G. Thomas: Yes. What the railway companies are really asking you to do is, to put right

19 June, 1924.]

SIR WILLIAM PLENDER, BART., G.B.E.

[Continued.]

in their favour at this period—all these free reserves really represented by capital account—put right what they feel is a grievance, that the trader ought not to have got any advantage from these free reserves, which were really the property of the stockholders, and that it was due to the companies' conservative finance that they remained as free reserves. That is the argument, as I understand it.

Mr. Jepson: You object altogether to Sir William's suggestion that although this is money which is put on one side on the ground of sound finance, the railway companies might have added the interest to the accretion of those reserves rather than have brought them into the revenue account?

Mr. F. G. Thomas: Yes.

Mr. Jepson: You object to that; and you say that whatever is held back it is their own money, and, if it is not distributed to-day it may be distributed to-morrow; any interest which may arise under the investment of these free reserves should go towards making up the net revenue?

Mr. F. G. Thomas: Yes, that is what the Act says. As you have put the question to me, perhaps it would be easier if I were to answer you upon it. This temporary, or permanent, nullification (as the case may be) of free reserves, as suggested in capital expenditure, does not diminish in the least the free

reserves. The railway companies are claiming all the advantages of capitalisation and the advantages of these free reserves as if they had created these free reserves as stock and distributed them to their shareholders—a 6 per cent. stock. They have all that advantage. But the free reserves still remain in the balance-sheet of the company available to meet all the emergencies and contingencies as to shortage of dividends which it is suggested it is essential they should serve; so that they have the advantages of capitalisation and distribution concomitant with the advantage of having these free reserves available to make up dividends.

Witness: When you say they have the free reserves available for dividends, that carries with it the implication that they have the liquid assets representing those free reserves, and that they must therefore restore into their balance-sheets, to make the position liquid, what has been temporarily provided for capital expenditure.

Mr. F. G. Thomas: Upon that, as regards liquid assets I point to these figures in this statement, that the investments in Government securities were approximately £95,000,000 and the cash on deposit with the bankers was £36,700; and the whole amount of this increase in debit to Capital Account was £17,000,000 or £18,000,000.

Cross-examined by Mr. STAFFORD CRIPPS.

Mr. Stafford Cripps: Before I ask Sir William any questions, Sir, may I mention the matter of some copies of minutes that were asked for on the last occasion when Mr. Williams was in the box? A letter has been since written by the County Council solicitors to Mr. Cole Deacon, asking for those copies, and a reply has been received that they are being extracted and will be furnished as soon as possible. I am very anxious to have them before the next witness goes into the box. I do not know whether my friend Mr. Clauson can tell me about it. The letter asking for them is dated the 5th, but the reply was not sent until the 12th; and nothing further has occurred. The matter was mentioned on the 30th of May at Question 2733, so that they have had nearly three weeks. I understand that it is only a matter of copying something.

Mr. Clauson: With regard to the minutes mentioned by my friend, my instructions are that they were sent to his clients two days ago—the day before yesterday. Those are my instructions, and no doubt there has been some slip somewhere.

Mr. Stafford Cripps: They have not yet arrived.

President: Perhaps you could get on the telephone and see whether that is so.

3580. Mr. Stafford Cripps: Yes, Sir. I am obliged to my friend. (To the Witness): I want to ask you one question about the negotiations for the £60,000,000. Had you, at that time when you were acting as intermediary, Lord Colwyn's Report?—Lord Colwyn's Report had been issued before I so acted.

3581. It was in your hands. It had been issued and you had had it?—I had seen it. I did not carry it about with me.

3582. I quite appreciate that. Perhaps if you would not mind, you would look at page 16 of it. It is only to refresh your memory, if I can. You will see there: "Outstanding liabilities of Government," as a sort of side note, half way down page 16. It is paragraph 13 of Chapter II of the Report. You will see under that that there are heads A, B, C and D. I wondered whether, with that before you, you could say those were the heads which the Government and the railways took into consideration when they were negotiating?—I do not know whether you were present when Sir Douglas Hogg asked me a question very much the same as yours; but my recollection is that what I said to him was pretty much, if not exactly, what is said here.

3583. I only wanted to put the actual Report, in case it refreshed your memory, to say definitely that those were the heads?—I am obliged to you.

3584. I want to ask you now the meaning you give to one or two of the terms that are used in Section 58 of the Railways Act. With regard to the question in Clause 58, Sub-section (1), of the aggregate net revenues in the year 1913, I understand that you think those are properly represented by the figures given by the companies from Account No. 8?—Generally speaking, yes.

3585. What measure of adjustment do you consider it is legitimate to make to that figure in Account No. 8?—Do you mean the 4 per cent., or what?

3586. How far you consider it is legitimate to alter the figure which appears in Account No. 8, either upwards or downwards?—I think, for example, with regards the 4 per cent. goods rates and the Post Office contract with the Southern Railway, they were quite proper additions to make to the revenue. I give those as illustrations.

3587. Are there any others?—One moment, if you please. Then if you look at Account No. 9, there were cases where they were appropriations of net revenue which were adjusted. I think Mr. Williams of the North-Eastern Group gave evidence on individual items, and, as far as I can remember, I am in agreement with him in substance.

3588. Supposing there were items which had been wrongly charged in the 1913 account, just as the 4 per cent. was wrongly omitted, would it be right to inquire into those and to adjust them?—I am not aware that there were any.

3589. I am asking you to assume that there was such an item.—That if an item had been charged in 1913 it should be adjusted? The effect of charging an item which ought not to be there, or charging it too much, would be to reduce the revenue for 1913.

3590. The effect of the adjustment would be to increase it?—Yes, it would, if it were charged too much; that is right.

3591. I was asking you whether, in such a case, it would be a proper thing to adjust the 1913 account?—If there were a case ascertainable, or a case visible, where anything of that sort had been done, I should agree, certainly.

3592. And, similarly, if there were some item which was not charged, it would be proper to ascertain that and to make the adjustment?—Yes. You would have to go into a very long inquiry to discover things of that sort; and whilst I have not gone into the 1913 accounts of the companies, we have, I think, the evidence of the accountants who are familiar with them that it would make little or no difference.

19 June, 1924.]

SIR WILLIAM PLENDER, Bart., G.B.E.

[Continued.]

3598. I am only asking you as a question of principle?—Yes, theoretically you are perfectly right, if you are going to go with a microscope into the 1913 accounts.

3594. And also theoretically it is perfectly right if you are going at all to depart from the accounts as published; if you are going to make additions to them it is right to inquire as to whether there are not some deductions also to be made?—I would rather put it in this way: These cases where additions have been made are quite obvious and proper additions to make. I do not know any cases where anything to the contrary is required to be done. As I have said, you could only get at that by going through it with a tooth-comb for 1913, which would take a very long time, and what the result would be is, in the accountants' view, little either way.

3595. I appreciate that; I only wanted to ask you as a matter of principle. Now, you will find in Section 58 (1) (b) the phrase "the enhancement of the value of the undertaking." I want to know what you consider the *criteria* of the value of the undertaking?—I rather left that to your learned friends and to the experts of the companies. Sir Ralph Wedgwood will follow me as a witness, and he is a man better able to express an opinion on the meaning of that phrase than I am.

3596. I wanted you, if you would—I do not want to press you—to give us your opinion, from the accounting point of view, as to the proper criterion to take when you are considering the value of the undertaking?—I would rather you took the opinion of the General Manager.

3597. If you please. I want you to assume that the criterion put forward by the Lord Advocate is the one which the railway companies are adopting, and that is that the maintainability of the earning capacity is the real criterion of the value of the undertaking. You will find those words at page 35 in the Lord Advocate's opening speech?—I do not know whether he confined himself strictly to that and excluded intrinsic value. That is a matter of argument for him, or someone else, later.

3598. I want you to assume, if you will, that that is the basis upon which the railway companies are conducting their argument?—It may be that I should not agree with that.

3599. I am asking you to agree?—You are wanting me to assume that that is solely and exclusively their basis?

3600. Yes, I am.—On that assumption, have you got a question?

3601. Yes, I have. The earning capacity will include the capacity of the investments as well as of the works, would it not?—The figures have been so framed.

3602. And if the investments were to be, say, transferred to some other company and were to cease to earn any revenue, the value of the undertaking would fall?—I do not quite follow you. You said if an investment were transferred to another company.

President: Mr. Cripps takes investments as included in the word "undertaking." He says if you take away some of the investments you cannot enhance the value of the undertaking.

3603. *Mr. Stafford Cripps:* I was putting it a little the other way, Sir. (*To the Witness:*) If the investments ceased to earn revenue, the value of the undertaking would fall.

Witness: You mean if an investment one year paid 5 per cent. and the next year it paid 4 per cent., the value of the undertaking would fall?

3604. Yes.—I do not know that it would; because you cannot take a particular thing like that and say because that is less, the value of the whole undertaking falls. You might have something else that would replace that loss of 1 per cent. by something more.

3605. I appreciate that. From the point of view of the particular investments, let me assume there are reserve funds of £50,000,000, to take a concrete

instance, and they are transferred to an investment the next year which produces no return at all—from a 5 per cent. investment. That would certainly not enhance the value of the undertaking?—It would decrease the revenue.

3606. And that, on the definition I have asked you to assume, would therefore decrease the value of the undertaking?—It would decrease the revenue of the undertaking. That is as far as I can go. To give as an illustration a loss of income of £50,000,000 is, if I may respectfully say so, quite absurd.

3607. I agree it is an absurd illustration, but I put it because it showed easily the point I was trying to emphasise. Now, supposing you transfer a 5 per cent. investment from one form of stock to another, both of which pay 5 per cent., that will not enhance the value of the undertaking?—It does not alter the revenue.

3608. I see you will not accept the assumption of the Lord Advocate's definition?—I think it is no good playing about it. As I said just now, if you want someone to tell you his view of enhancement, it is not me but the General Manager, or learned Counsel.

3609. I am only asking you to assume that it would enhance the value. But I am content.—Thank you very much.

3610. Therefore the transfer of money which is invested as free reserves in an investment in capital works, unless the capital works give a greater return than the stock in which the free reserves were invested, the revenue is not enhanced?—It would not enhance the revenue, obviously, if the return were less on capital than it was on the investment. But that requires to be proved. You may have a temporary loss of revenue, but you may have large potential increases from that expenditure.

3611. You remember the negotiations in May, 1919, with regard to the raising of the allowance by the Government upon capital from 4 per cent. to 5 per cent. The history of it is recorded in the Colwyn Report. I do not know whether you took any part in those negotiations?—I do not remember. I was consulted on all sorts of questions during the war period and subsequently; it is really impossible for me to remember what particular matter was referred to me.

3612. If you compare the period of, say, May, 1919, with the present period, was it more or was it less expensive then to raise capital for such a thing as a railway undertaking?—I have not looked at the 1919 figures and compared them with what they might be now. I am sorry, of course, because had I known I was to be asked a question as to the value of money in 1919, I would have looked it up. I really have no Stock Exchange statistics before me.

3613. As a matter of fact, was not 1919 a very expensive time for raising money? The Government were raising large quantities then, were they not, immediately after the cessation of hostilities?—I really could not say. I have not looked it up. Had I known you wanted the information, I would most gladly have done so. If you want anything about it I will get it out for you.

3614. No, I will not worry you, Sir William. Now as regards 1920. I think you put in a table before the Rates Advisory Committee—"W.P. 4"—which gives the yield that was received on various railway and other stocks in 1920?—Probably I did; but I have never referred to it since. However, I will gladly do so now.

3615. It is on page 77 of the Appendix. If in May, 1919, 5 per cent. was a fair sum in order to induce capital expenditure upon the railway companies, would not something lower now be a fair sum in view of the state of the money market?—If 5 per cent. were a fair price to induce money—

3616. To induce capital expenditure by railway companies?—There is nothing here, is there, which refers to that?

3617. I thought that figure in 1920 might be comparable with 1919?—This figure here is the rate of yield on market price.

19 June, 1924.]

SIR WILLIAM PLENDER, Bart., G.B.E.

[Continued.]

3618. Does not that give an indication of the cost of raising money?—It would give an indication of what might be the cost if the stock were placed on the market. There would have to be some deduction, as you will appreciate.

3619. Yes. But it does give you an indication?—Yes. And certainly from these figures it looks higher than it would be now, I quite agree.

3620. Therefore, if 5 per cent. were then the figure which induced capital expenditure upon the railway companies—I really do not follow you.

3621. Let me remind you of the line of the negotiations. The Government, just before May, 1919, were allowing only 4 per cent. on capital expenditure made since the date of control. The railway companies said that that was not sufficient; that they had a lot of capital expenditure which they wanted to make but they could not make it if they got only 4 per cent. for it. An agreement was come to then with the Government—in May, 1919—that the railway companies should get 5 per cent., and thereafter capital expenditure was made?—Of course, I was not a party to those negotiations.

3622. No.—I cannot, therefore, say that the reason why 5 per cent. was the bargain figure as between the companies and the Government was because, and only because, they might have to pay that price to get money. After all, it was a rate differing from the 4 per cent. which had been previously allowed, and it may be that it was a bargain that had no direct relation to the cost of getting money. It gave them an extra 1 per cent., and it might be that that is all they could get. It is possible they asked for more; I do not know.

3623. I am sure they did. In fact, there is a letter which shows they did.—I do not think there is any exact relation between the rate which, by bargaining, was allowed by the Government on that capital expenditure and the price they might have had to pay to go into the market to get the money.

3624. I appreciate that. That is why I put that rather awkward phrase to you, "induce capital expenditure upon the railway companies." Now with regard to depreciation funds. If you will kindly look at page 107 of the Colwyn Report Appendix, you will find there set out—under Abstract "A" and Abstract "B"—a series of different works, in the table at the bottom; then it sets out the depreciation which is to be allowed; then the maintenance allowance; and then a total. Now, were those figures there set out entirely new figures, or were they figures which had been previously adopted on the railway companies' lines? Take, for instance, railways, including viaducts and culverts. Had 1½ per cent. been allowed previously to August, 1914, in the Depreciation Account?—No; this is simply a scale of depreciation figures agreed to between the companies and the Government on new works brought into use during Government control.

3625. I appreciate that. But what I was asking was this: Was it an old scale applied to new works, or quite a new scale?—It was a new scale.

3626. I want to ask you now a question about depreciation accounts prior to 1913. There are two methods of accumulating a depreciation account, are there not; one by putting aside a sum of money each year and allowing interest to go to your Revenue Account, and the other by putting aside a smaller sum of money each year and allowing it to accumulate at compound interest?—Those two methods can be adopted. There are other methods as well.

3627. I appreciate that. The railway companies, or some of them, at any rate, adopted the process of putting aside a fixed sum each year and paying the interest on it to their Revenue Account?—I would rather put it the other way. They did not pay the interest on it to their Revenue Account, they refrained from charging Revenue Account with interest on the amount of the fund.

3628. Let us assume for a moment that the fund was £10,000 invested in War Loan?—Invested?

3629. Yes?—You did not mention the word "invested."

3630. When I said "put it aside," I meant put it aside and invest it. In that case the interest on the £10,000 in War Loan would go to the Revenue Account every year, would it not?—That is the usual method.

3631. Now, supposing that that method of depreciation applied to such buildings as, say, an engine shed. It is one of the buildings for which, I believe, they do have a depreciation account; but perhaps you do not know?—I could not say.

3632. Suppose, as an instance, you had an engine shed which was valued at £36,000—it is a case out of one of the accounts—in the year 1900; and that you had a depreciation fund of 2½ per cent. on that. I take 2½ per cent. because it is the figure in the Colwyn Report. Now your position in the year 1913 would be that you would have your engine shed and you would have accumulated a sum of £11,700 in your depreciation account, and presumably that sum would be invested. That would be a fair assumption to make, would it not?—I am following you as you proceed.

3633. That Depreciation Fund, if it were invested, would be earning revenue. Therefore, as regards the revenue-earning capacity, the remuneration of the capital which was originally invested in the engine shed—that is the £36,000 in 1900—the interest on the Depreciation Fund, would partially remunerate that original capital?—I should not have put it quite like that. But the effect is this, that the benefits derived from the use of the engine shed fall into the company's Revenue Account, and so would interest on that investment fall into Revenue Account.

3634. And the principle of the Depreciation Fund is this, is it not, that as your engine shed gradually depreciates in value, your Depreciation Fund rises in value; so that you start with an engine shed at £36,000 with a 2½ per cent. Depreciation Fund, and at the end of 40 years it is worth nothing; and in regard to your Depreciation Fund you start with nothing and at the end of 40 years it is worth £36,000?—You know they cannot invest for specific funds.

3635. Yes; I am only taking an instance?—You are assuming they specifically invested some money against a particular item of depreciation.

3636. I am only taking an instance, because it is impossible to put it if you take it at large?—As a matter of fact, there are no specific investments of these funds.

3637. In the aggregate, the amount of the invested funds bears some relationship to the amount of the depreciable capital existing?—I would not like even to go as far as that.

3638. It should do?—I do not know. The same as you have heard about casting it into temporary capital expenditure pending borrowing. You cannot trace investments against specific funds, as has been so often said here.

3639. Let me put it in this way: Supposing in the Capital Account of the company you have £20,000,000 worth of capital works to which Depreciation Funds are applied, and in the Depreciation Funds you have half a million pounds invested.—You mean of the Depreciation Fund you have half a million pounds invested?

3640. I was going to say: In the Depreciation Fund you have half a million pounds invested which you can relate to the £20,000,000 of capital.—You cannot say that the fund has in the fund an investment. The fund is one thing. You may have part of it invested, of course.

3641. Where would the rest be?—It might be in stocks, or cash balances, or debtor balances, or in liquid assets.

3642. It would be in some form of liquid assets?—Unless it had been temporarily used on Capital Account. You cannot possibly trace these items.

19 June, 1924.]

SIR WILLIAM FLENDER, Bart., G.B.E.

[Continued.]

3643. In some form or other it will be earning something for the company?—It should be.

3644. Whatever it earns for the company will be helping to remunerate that £200,000,000 of capital

which was originally invested in those capital works?—Whatever it earns assists in augmenting the revenue of the company.

Cross-examined by Mr. MORRISON.

3645. As an accountant, could you tell us what you understand by the term "depreciation"?—Wastage.

3646. Would you include in that obsolescence?—Strictly speaking, obsolescence is not wastage by day to day usage of an article. Obsolescence is rather a provision for a superior class of asset that the evolution of life renders necessary or desirable in place of an existing one. Let me give you an instance. You may have an engine, or a boiler, or some other article in use, which gets altered in character by new inventions. There, obsolescence is providing for that event as distinct from day to day wastage by usage.

3647. In what account would you provide for that contingency of obsolescence?—It might go into Depreciation Account. It is very rarely that people create a separate account of obsolescence.

3648. In your opinion can maintenance and renewals ever be sufficient to cover depreciation?—That, again, depends on the particular facts of the year. I would not say that repairs in themselves would do so; but if renewals are carried out on a very extensive scale, it would certainly affect the contribution to your Depreciation Fund.

3649. Can you tell the Court if it is a fact that, in the case of some of the Companies prior to the amalgamation, maintenance and renewals were all that was provided for in that respect?—I have already gone into that in the evidence I have already given. I pointed out what was the practice in 1913.

3650. Can you tell us whether the auditors take the real responsibility for the depreciation figures, or do you take them as they are given to you?—I would not like to say that the auditors take complete responsibility as to depreciation. The engineering staffs give a certificate, as you know, attached to the statutory form of accounts as to the line being kept in a good state of efficiency; and the experienced staff of the company are consulted as to what in their judgment should be set aside. The auditor, after hearing what they have got to say, forms his opinion as to whether what is done is reasonable or not.

3651. I understand that in general you approve of the formula which the Companies have adopted in conforming with the provisions of Section 58 (1) (c) of the Railways Act.—I have not taken any responsibility for the preparation of the statement in 58 (1) (c). That is a matter upon which I believe the General Manager, as has been said before, will give evidence after I am finished with.

3652. Had you any idea before you came to give evidence that the Companies had not troubled to consider whether any particular expenditure included in this claim really had enhanced the value of the undertaking?—I do not quite follow you.

3653. You know that the Companies have adopted a rule on the basis of time that if a work came into use 15 years prior to 1913, in that case it came within the provisions of 58 (1) (c), and therefore, they did consider whether any particular expenditure really did come within 58 (1) (c), on its merits.

President: They have taken some limited things like locomotives, if you recollect. They have taken those out.

3654. *Mr. Morrison:* Yes, Sir. But subject to that, they have not troubled to consider the actual applicability of Section 58 (1) (c) to any particular item of expenditure?—As I have said, I am not giving evidence on 58 (1) (c).

3655. You would not like to take any responsibility for what they have done in that respect?—As I have said all along, that is a matter more for the General Manager and the Chief Accountant. I was not consulted about that.

3656. As an accountant, would you agree with what the companies have done in that respect?—I would rather not express an opinion on the subject, because I am not concerned with this particular statement. I have not considered it.

3657. In connection with the question of the return which has been obtained for the shareholders on the capital invested, is it not a fact that the railway companies have had to earn a dividend, and possibly are still doing so, on what is generally known as watered capital—nominal capital?—No; that is a pure myth. The Companies earn a dividend on the capital expenditure, not on the capital subscribed. They earn it on their capital expenditure, and they distribute what they earn on their capital used.

3658. And the capital issued may include watered capital?—But that does not affect the earnings at all.

3659. But it may affect the rate of dividend—naturally it does?—It would affect the rate of dividend on the deferred stock.

3660. They must earn more to pay a given rate of dividend if part of the capital is watered capital rather than real capital?—No, not at all. If I remember rightly, the principle underlying the splitting of stock was to give an equal amount of preferred stock and an equal amount of deferred stock, affixing to the preferred stock a low rate of interest which did not vary, and then the balance was paid on the deferred stock.

3661. Can you say whether, prior to the amalgamation, there was, in fact, about £200,000,000 watered capital, and whether that still exists, or has it been squeezed out in the process of amalgamation? You were a member of the Amalgamation Tribunal, I believe?—I have not looked into that.

3662. You have no knowledge how far that capital has been written off?—I should not think it has been written off at all. The object of the amalgamation was an exchange of stocks between the absorbing company and constituent and subsidiary companies. That does not affect capital expenditure and it does not affect earnings.

3663. As to the allowance necessary under Section 53 (1) (b), the companies' estimate of the expenditure was based on the assumption that capital would be raised in equal proportions as between debentures, preference stock and ordinary stock. Can you tell us if this proportion is reflected in the capital of the amalgamated companies whose schemes you have, as a member of the Amalgamation Tribunal, recently agreed to?—I really could not answer that question without inquiring into the character and amount of the stocks issued.

3664. What was the period when you considered—in answer to a question by Sir Douglas Hogg—that the rate of interest the public would expect from railway investments would be rather inflated because of the fear of nationalisation?—I do not quite follow.

3665. I gather that, in answer to a question by Sir Douglas Hogg, you indicated that the expectation of the public of a rate of interest on railway investments would have been at one time rather increased because of the fear of the nationalisation of the industry. Can you tell us at what time that fear existed?—I am not quite sure it was put in that way. I am speaking from memory, because I have not refreshed my recollection since giving evidence, but I think what I said was in substance this, that the stocks of English railway companies, and obviously that would be the ordinary stocks, were sensitive to labour difficulties, and also to possible fears of nationalisation; but I did not attempt to translate into money terms what those fears might be.

3666. But, as a matter of fact, when industries have been nationalised, the proprietors have in all

19 June, 1924.]

SIR WILLIAM PLENDER, Bart., G.B.E.

[Continued.]

cases. I think, been adequately compensated—and some people might think more than adequately compensated—so that nationalisation might be an advantage to the proprietors?—I cannot recall a case of nationalisation.

3667. Not telephones?—Yes, that is one case.

3668. They certainly were not dealt with ungenerously, were they?—You are going back now into rather ancient history. As a matter of fact, I appeared for the telephone companies, and my recollection is that they were not particularly satisfied with what they got.

3669. That may be so. But that would not be at all inconsistent with their having been generously treated, would it? At any rate, you would agree that the Government or Parliament which passed the Railways Act of 1921 was not a Government or

Parliament which was in any case likely to be ungenerous to the railway companies, even if they nationalised the railways?—I hope, whatever Parliament existed, if it had as one of its objects the nationalisation of railways, it would deal with the shareholders in a reasonable and even generous spirit. I hope so.

3670. As a matter of fact, the prospect of nationalisation might appreciate railway securities rather than depreciate them?—It might. But on the other hand, as you know, there is always a class of nervous people who are made more nervous when they try to look into the unknown; and, if I may use an aphorism, values of securities are like a barometer—sensitive to atmosphere.

3671. Even when that has no basis, in fact?—We are talking rather generalities, you know.

(After a short adjournment.)

Cross-examined by Mr. WORRAILL.

3672. I want to ask you a question or two with regard to "R.T. 4a," which is headed "Standard Revenue." I think it is the same in all the books. You told us that you did not take a great deal of account; in other words, you did not take a great deal of account of the distinction between income and revenue. Is that so in your considered view?—Well, I have already given evidence on that subject this morning.

3673. Quite; but in continuation of that evidence is not there a possibility that the legal gentlemen have rather fallen across this account and mixed it up possibly with the usual form in the railway accounts Board of Trade return form?—I do not like to make any reflections on the ability of the legal gentlemen who have been presenting their case.

3674. My point is this. You see, the Act evidently intends us to arrive somewhere. What is in my mind and I want you to confirm what is in my mind if you will be so good—if not, contradict it—is that the Standard Revenue is quite a distinct thing from a Standard Revenue account?—If an account purporting to show what was Standard Revenue, then the Standard Revenue would be what that account showed.

3675. Certainly Standard Revenue. It seems to me that the railway companies' legal advisers have read into this Act that this is a standard income and expenditure account; there is a distinction, I think?—The balance of a receipts and expenditure account properly arrived at is net revenue.

3676. The Board of Trade form brings it down to total net income; that is the form we are bringing on to "R.T. 4a."—As I have said before, that was an attempt, in a short phrase, to define the printed heading of the account. I do not think, personally, it has got very much significance.

3677. Let us come to the Act itself. It uses this term; the statement is "Adjustment of Charges to Revenue." It is Clause 58. You get there the use of the term "revenue" throughout; it never refers to "income"?—As I have said before, I think the expression "net revenue" is a more correct phrase to use, and that describes properly, in my judgment, what the railway companies have done, and is, I think, in conformity with the terms of the Act.

3678. Now you get the account as prescribed by the Board of Trade; that is really an income account; it does not use the term "revenue"?—If you will look at the heading of it it says—

3679. It says "revenue receipts"?—Yes.

3680. And "expenditure"?—Yes.

3681. Our respected President drew my attention to that. I think I used the expression with a view to clear away—or words to that effect—the extraneous items and get down to what is meant by "revenue." I put it to you, that the revenue at which we have to arrive is the actual revenue, and not revenue less expenditure so as to get at the standard revenue; that seems to be the simple man-in-the-street view?—

I should have thought that what the tribunal was to get at was the net revenue itself, because after this standard revenue is arrived at you will have to take for the appointed year the working expenses of that year and such expenses properly arrived at added to whatever the figure may be here in this statement will have to be provided by rates and charges to be fixed by the Tribunal.

3682. I agree it has got to be arrived at eventually, but the first step is to get the revenue?—That is the object of our meeting here to-day; that is the object entirely of this sitting.

3683. My submission to this Tribunal will be, that the standard revenue is the standard revenue and not the standard revenue less expenditure. I do not know whether your experience of the question would allow you to arrive at that?—I am sorry; I have a little difficulty in quite appreciating what you mean.

Mr. Jepson: Mr. Worrall, will you look at the words of Section 53, which describe the annual net revenue hereinafter referred to as the standard revenue?

3684. Mr. Worrall: I am obliged to you, Sir. I want to get on to the book-keeping side now. This double account system, which you are well aware, has got its defects as well as possibly its advantages, keeps clearly ear-marked in compartments the capital and the revenue, and debits and credits in both compartments, so that when you arrive at the impersonal ledger you have got such accounts as this, a freight account, that is a revenue account, and on that freight account you have got debits and credits because you have the impersonal ledgers working in debits and credits, and they would be focused on to this impersonal account as a revenue account. You have got a clear revenue account. That is so, is it not?—I am following you, but I am wondering what the question is.

3685. Will you agree? You have got a revenue account there; that is a net revenue account when you have taken your credits from your debits or, rather, the debits would be taken from the credits?—The account which you mention is the account which shows the revenue derivable from freights. The working expenses to earn that revenue are not debited in that account.

3686. That is my point, that that is a revenue account, a net revenue account, and so it follows all through; you get your fares and you get your railway clearing accounts. There is another account, the fares, and that is a net revenue account; that is reasonable?—The accounts which you mention simply embody the revenue from those particular sources; you cannot get at net revenue without debiting the charges which are necessary to earn such revenues as you have spoken of.

3687. You get in each one of these accounts a net revenue account?—No, you do not get a net revenue account. You get revenue from those sources, but net revenue is the balance left after charging the expenditure to earn the revenue.

19 June, 1924.]

Sir WILLIAM FLENDER, Bart., G.B.E.

[Continued.]

3688. My submission there, of course, is that it is not necessary to bring in these expenditures which you are endeavouring to bring in by all sorts of theoretical calculations as a simple way to get at the revenue. Taking what it means, net revenue, that is not inconsistent with the reading of the Act. That is my submission which I will proceed on later. You were good enough to introduce one calculation, or one basis of calculation, this 112½ per cent. Now, you have evidently formed the opinion that this is a rule-of-thumb calculation?—I did not say so.

3689. It is not an actual calculation, you agree?—Certainly not.

3690. Then it has been calculated on certain preconceived figures?—I think I can save your time, and that of the Tribunal, if I tell you that I took that 112½ per cent. on information given to me, and the gentleman who will be here to support that is Sir Ralph Wedgwood, who will follow me.

3691. Quite; but the legal gentlemen, I think, have side-tracked you by telling you that this calculation cannot be allowed because you have been told it, and, according to the laws of evidence, it is not evidence.—I have already explained that the gentleman who will give evidence on this is Sir Ralph Wedgwood.

3692. Let us come down to the basis of it. You yourself surely calculated it, or you would not have mentioned it?—I did not calculate it, and that is what I have told the Tribunal. I assume no responsibility for it whatsoever.

3693. Not for the 112½ per cent.?—That is what I have told you all through.

3694. You agree with me it may be calculated?—I think you will find that out when Sir Ralph Wedgwood is in the box.

3695. I will reserve that point. As to the possibility—this is rather important because I think you can help the Tribunal—of putting the railway accounts on a commercial basis apart from the double account system, could that be done?—Putting them on to a commercial basis; what do you mean by that?

3696. In the same way that in every limited company or corporation would carry on business, not by distinguishing between capital and revenue in the way the railway companies do, but by conducting their business in the ordinary way on the double entry system?—Every limited liability company shows its capital that it has raised; it shows its capital expenditure, and then it has its liquid assets separate as well as its liability to creditors and others. I assure you that, in principle, there is no difference between the method which companies have and large railway companies have except this, that the railway companies show infinitely more detail to the proprietors and to the public than does the ordinary limited liability company.

3697. I agree, but in the getting of this multiplicity of detail is not there a danger that in dissecting between capital and revenue, as the railway companies do, of it being wrong?—Not the slightest.

3698. I do not want to quote another authority against you?—I can assure you—

3699. There is much criticism on that point?—I do not know who the authority is, but I would like to know who he is if he seriously questions the propriety of the charges to capital which the great railway companies make. I can assure you from a life-long experi-

ence that the greatest care is taken on the part of the permanent staff, the engineers, the accountants and others, and then when all that has been done and sifted most carefully it comes under the review of the auditors who personally examine the officers responsible.

3700. I admit all that, but now let us come to concrete facts apart from theoretical figures. Is it not true that the railway companies never do value up their assets?—Value up their assets?

3701. Value up what their assets are?—You mean they do not value up their capital expenditure?

3702. No, their assets; not the capital expenditure; the value of the assets as represented by certain figures?—Assets are represented by capital expenditure.

3703. Take this case where we have discussed the steam-boats?—They do not value them up; certainly not.

3704. Ought not they to value them up?—They do not do so.

3705. Would not it be better to do it the same as other companies do?—No company values up its steam-boats.

3706. I think an ordinary commercial company dealing in steam-boats would value up their steam-boats?—They would not value that up.

3707. I do not mean in the sense of valuing them up; leave out the word "up"?—They would only value them in this sense, and it is what the railway companies do; they provide for wastage through depreciation fund; they do not get a value in at the end of each year to value their tonnage in order to arrive at what is the available profit for distribution.

3708. They never take stock of their assets?—Yes, they take stock of their liquid assets, but they do not value up or down their steamers.

3709. Do they take the value, say it is so many thousand pounds this year?—No.

3710. They never do?—No.

3711. With regard to the commercialising of the railway accounts, I want to draw your attention to Question 1469. This question was put to Mr. John Quirey, and I want your opinion on it. Would you agree that any commercial firm would value their debts at 5 per cent., and by bringing them into account as an asset and allowing for that in the trading account that that would be a proper method?

Mr. Locket: I think there must be a mistake there; I thought so at the time when I read it. I think it must mean 5 per cent. less than their face value, not 5 per cent. on their face value.

Mr. Worrall: It answers some useful purpose if that error is discovered, but it is evident the railway companies proceed on a very bad basis.

Mr. Locket: I think it is so obvious a mistake that you cannot take it as it appears there.

Lord Advocate: It is a slip on the part of the shorthand-writer.

Mr. Worrall: I was going to say it is a question for the Income Tax authorities. If it is admitted that is a mistake there is no point in my labouring it, but I do think, and, of course, my submission later will be that if we commercialise the accounts of the railway companies it would be much better for the railway companies and for the public.

Re-examined by Mr. CLAYSON.

3712. You were referred to the Colwyn Report, and you were referred to some figures at page 107 in regard to maintenance and depreciation. Perhaps you might just turn on three pages to page 110, where there is a letter from the Board of Trade in May, 1919, which was a little earlier than the date of the letter the schedule to which was referred to, and you will see there what the Board say in the last paragraph but one of that letter: "The Board, however, consider that the case might be substantially met if the interest on capital expenditure when provided by the companies, on new works, or additional rolling-

stock, brought into use were increased to, say, 5½ or 6 per cent."—that meant, of course, I think, from 4 per cent., did it not?—Yes.

3713. To 5½ per cent. or 6 per cent.?—Yes.

3714. I do not know whether you are able to say whether that appears to represent the view of the Board of Trade on the matter?—Presumably it would, because that was a letter from Sir William Marwood, who was then the Permanent Secretary.

Mr. Clayson: I thought it would assist the Tribunal to have that put with the previous page.

(The Witness withdrew.)

19 June, 1924.]

MR. JOHN QUIREY.

[Continued.]

Lord Advocate: You will recollect, Sir, that when Mr. Quirey came back into the witness-box on the second occasion, he gave some information regarding capital issues which Sir Douglas Hogg pointed out did not give him all the information he wanted, and at the end of page 157, at Question 3254, Sir Douglas Hogg asked Mr. Quirey: "Then I think you said that you would be able to tell us in a little detail what the different issues were issued at, and the dates when that happened?" and Mr. Quirey said, "Yes, I will look into that." In order to fulfil that undertaking I think it is right that I should put Mr. Quirey in the witness-box for a moment in

order that he may give the information which is desired. It has been asked for several times, I think, during the proceedings.

President: The only thing is that Sir Douglas Hogg is not here for the moment to cross-examine, if he wishes to.

Mr. Wrottesley: I do not think it will require any cross-examination; I think it is immaterial, Sir.

President: Very well.

Lord Advocate: I do not think there is any dispute as to the dates. To make it accessible to my learned friends it has been put in tabular form.

MR. JOHN QUIREY, recalled.

Further examined by LORD ADVOCATE.

3715. Do you recall that in the course of your evidence you were asked to give the details as to when the different issues of capital were made and as to the prices at which the capital issues were made?—Yes.

3716. And the form of capital; that is to say, its distribution among loans, preference and ordinary stock?—Yes.

3717. Have you occupied the interval since we last met in preparing certain information to satisfy those inquiries?—Yes, I have collected the information from several companies.

3718. Will you be good enough to supply the Tribunal and my learned friends with that information, with the necessary explanations. Tell us what you have got?—Yes. I have got a statement "J.Q. 5 Amended" which sets out the issues of capital to the public and a second class of capital receipt, stocks issued in exchange for stocks of acquired undertakings where the expenditure is included under Claims 58 (1) (a) and 58 (1) (b), and I arrive at the gross amount received for capital issue, from which I deduct the amounts of loans repaid and a few minor adjustments, leaving the net receipts; and we have calculated the cost to the companies of the issues to the public over the period of 11 years, 1913 to 1923. I have also prepared in support of this "J.Q. 5" four statements, one for each group company, showing in Statement "A" the issues year by year. There are schedules to Statement "A" showing the issues by the several companies year by year, and the average cost per year has been worked out for each class of capital.

(Tables handed in; see Appendix.)

3719. You have both summarised statements for the four amalgamated companies and you have detailed statements for the constituent companies showing what they did?—Constituent and subsidiary companies.

3720. And on your "J.Q. 5 Amended," which you have just handed in, at the bottom you have figures which are of importance showing the cost to the companies, or yield to the purchasers, of issues to the public in different categories?—That is so. That is the average for the period of 11 years.

3721. That is the average cost to the companies, or yield to the purchasers, over the whole period of 11 years?—Yes. If you look, for example, at Statement "A" of the London and North Eastern Railway Company, the total figures along the foot give the several rates quoted 4.93 per cent. for loans; 5.13 for Debenture Stock, and so on.

3722. These are the figures carried to your summary table?—That is so.

3723. Is it important to look at the different years on these detailed tables in order to see whether there has been any progressive increase in the cost over the period?—Yes. I think Statement "A" shows that the rates at which capital could be raised from the public in the years 1913 and 1914 were lower than from 1915 onward.

3724. The average, therefore, which is shown as the cost to the companies at the foot of "J.Q. 5 Amended" is an average which includes, of course,

the smaller figures at the beginning of the period, and the larger figures at the close of the period?—Yes; the average of the 11 years is less than the average of 1915 to 1923.

3725. It does not therefore mean that the cost to the companies shown at the foot of "J.Q. 5 Amended" represents the figure at which the companies could here and now raise that capital?—It has no regard whatever to present-day conditions.

3726. Do you point to the more or less uniformly progressive, not entirely uniformly progressive, increase in the cost to the companies of raising capital up to 1920, and thereafter a small fall?—The years 1920 and 1921 on practically all the tables seem to be high-water mark.

3727. 1920 and 1921?—Yes. There is a slight reduction in 1922, but the issues were negligible.

3728. They are very small sums it appears?—Yes. We only issued capital in the war period when we were absolutely obliged to do it.

3729. Was that because of the cost of raising it?—Yes; the cost was prohibitive; and, as a matter of fact, a large proportion of the issues in the war period were of a redeemable character.

3730. Do you desire to make an amendment on the table which was printed upon page 81 of the Proceedings?—Yes. I discovered in making these tables of issues that we had in error included as the proceeds of new capital raised printed at page 81 certain stocks exchanged for stocks of other undertakings, and the expenditure was not included in the claims under (1) (a) and (1) (b), and, of course, such items must come out.

3731. Do you desire, therefore, that the Tribunal should substitute for the table on page 81 a new table which gives effect to the correction you have indicated?—If it be permitted.

3732. *Mr. Lockett:* That comes out altogether?—The bottom line on page 81 comes out, and also the line "Proceeds of new capital raised." I have enlarged the explanation "Proceeds of new capital raised" by excluding stocks issued in exchange for stocks of other companies where the expenditure is not included under Claims (1) (a) and (1) (b); and attached to each company's detailed statement will be found a Statement "C" give those details.

3733. *Lord Advocate:* I notice that the amount of the increase in free reserves remains the same in your table?—Yes, it is unchanged. There are two lines in the statement altered; the "Proceeds of new capital raised," and then the comparison with the table of the Claims under (1) (a) and (1) (b).

3734. These two lines only are affected, and even so, the amounts are not very large.

Mr. F. G. Thomas: Interest and surplus are not affected.

Lord Advocate: Yes, these are.

3735. *Mr. Jepson:* You made a correction on the 2nd of June; I have altered my table in pencil; this is another correction?—This correction really applies to all companies; the correction I made earlier was in respect of the London, Midland and Scottish; and even there it is necessary to make a further correction.

19 June, 1924.]

Mr. JOHN QUIREY.

[Continued.]

3736. *Lord Advocate*: Would you ask the Tribunal for the future to rely upon this table that you have handed in to-day as being the correct amended form?—If you please.

3737. That table will be printed and go on the notes. I do not think it will be necessary, unless my learned friends desire it, to put all the supporting detail Mr. Quirey has prepared on the notes. They are very expensive to print.

President: The difficulty is, references are made to them in the evidence, and then you have nothing to corroborate the answer.

Lord Advocate: Mr. Quirey really has not made any detailed reference to them. He says he has these to support the tables which he has got. If you think, Sir, that they will be of use to you, they shall be printed.

President: I shall have them in any case, but I know that very often when you have these transactions in future years to refer to it is very inconvenient not to have the details before the Tribunal.

Lord Advocate: Perhaps the Solicitor-General will not object to my saying they ought to be printed.

Solicitor-General: If you think, Sir, that it is wise or necessary, of course, it must be done. I was thinking of public money.

President: I think they should be printed.

Solicitor-General: If you please, Sir.

3738. *Lord Advocate (To the Witness)*: Have you anything else to add?—No. I am sorry that we had to get this through very hurriedly last night, and I see that the London and North Eastern figure of the proceeds of new capital is incorrect. You see on Statement "A" of the London and North Eastern I quote as carried to "J.Q. 5 Amended" £4,191,942, and I only carry the top £4,112,661. I think the whole thing will be met if we strike out the additions to Statement "A."

3739. *Mr. Jepson*: Do you mind repeating that? You carry into your "J.Q. 5 Amended" various figures, making a total of £10,900,891 which was raised at an average of 5-1/2 per cent. What do you say you want to do?—You will observe in the end column the figure of £4,112,661; that is the net amount of cash received for issues to the public, but the London and North Eastern had two other items of capital receipts which ought to be added to that; that is the difference between the issued price and the price of redemption of a second redeemable stock of the Great Central Company £74,961 and the various premiums which they received in exchange for miscellaneous stocks, £4,320. Really the figure received by the London and North Eastern Railway Company from the public and from these special receipts in the years 1913 to 1923 was £4,191,142.

Lord Advocate: Is the practical upshot of it this, that we should substitute the net receipts, the first figure, £4,112,661 for that £4,191,942?

President: Is this a correction of the corrected table?

Lord Advocate: I am afraid so, Sir; I am very sorry. I venture to suggest it might be printed in that form.

President: I wish you would see that that is done.

Lord Advocate: If you please, Sir.

Witness: There are six alterations.

3740. Is there anything else?—I had two other points of information required by the Tribunal.

3741. There were two other matters upon which you undertook to give some additional information. Take the question of the Kilsyth and Bonnybridge Railway at Questions 1274 to 1278?—Yes; it was alleged that there might be a duplication of the net revenue in that undertaking.

3742. And you undertook to make inquiries about it, I see, at Question 1278. Will you tell us what you have done?—I have looked into the matter of the Kilsyth and Bonnybridge Railway Company's net revenue for 1913. It was not a joint line, it was an independent line worked by two companies, the Caledonian Railway Company and the North British Railway Company, the working agreement being 50

per cent. of the gross receipts for working expenses. There is no difference between this non-working company and any of the others. The Caledonian Company; at least, the London, Midland and Scottish, Schedule "A," contains in the case of the Caledonian 100 per cent. of the gross receipts from traffic worked by the Caledonian over the Kilsyth line, less the cost of working, and in No. 9 there is the payment to the Kilsyth Railway Company of 50 per cent. of those gross receipts, so that the transaction is wiped out. So far as the Caledonian entry goes there is nothing in the London, Midland and Scottish net revenue in respect of the Kilsyth and Bonnybridge Railway Company. The Kilsyth line is a subsidiary undertaking of the London and North Eastern Railway Company; they take the whole of the net revenue. So far as the North British are concerned, in "R.T.2a," Schedule "A" would contain the gross receipts of North British traffic, less the cost of working, and Schedule "B" would contain the 50 per cent. of the gross receipts paid out to the Kilsyth Company, so, again, the transactions are cancelled out. Then as a non-working company we bring in the net revenue of the Kilsyth Company, so it is really only in the Standard Revenue once, and it is in the Standard Revenue of the London and North Eastern Railway Company.

3743. Can you assure the Tribunal that there has been no duplication of net revenue arising under this item?—Assuredly.

President: Mr. Hunt, this point was raised on behalf of the London County Council. Are you satisfied with the explanation, or do you wish to ask any questions?

Mr. Hunt: I think that will do, Sir.

Lord Advocate: There is another matter I want you to deal with.

3744. *Mr. Jepson*: Before you leave this matter, Lord Advocate, I would like to ask the witness a question. (To the Witness): You told us that this was an independent line worked jointly by the North British and the Caledonian on a 50 per cent. basis. Did that mean the two companies worked on the basis of 50 per cent. of the receipts whichever company provided the receipts, or did each company pay to the other company 50 per cent. on whatever proportion accrued respectively to the Caledonian and the North British?

—The Caledonian Railway Company paid 50 per cent. of the receipts earned by the Kilsyth line on its traffic and the North British Railway Company did the same.

3745. There was no bringing the two together afterwards to make a joint 50 per cent. out of the total profits?—No, that was done by the Kilsyth Company in their private account.

3746. *Lord Advocate*: It was not pooled, in short. The other matter to which you might attribute a short explanation is the loan to the Maryport Harbour Commissioners which was referred to at Questions 353 to 358?—Yes. That was an item which the London, Midland and Scottish wrote out of capital expenditure at 1st January, 1923. It was the Maryport and Carlisle loan to the Maryport Harbour Commissioners, and the Maryport company charged the amount to capital expenditure. The London and North Western Railway Company made a similar loan at the same date; the authority was the Maryport Harbour (Improvement) Act of 1884. The security given in each case was 4½ per cent. Mortgage Bonds which were repayable on the 10th of September, 1904. Repayment was not made at due date, nor since, and the last payment of interest to either company, either the London and North Western, or the Maryport Company, was in 1908.

3747. *Mr. Jepson*: You say that has been written off the capital account. That £10,000 originally was charged to capital, money advanced to the Maryport Harbour Commissioners, but since then it has been written down from capital?—As a fact, the London and North Western Railway Company never charged it to capital, but the Maryport Company did, and it is the Maryport transaction that has now been written out of capital.

19 June, 1924.]

Mr. JOHN QUIREY.

[Continued.]

3748. *Mr. Locket*: So that it does not appear in the London, Midland and Scottish figures at all?—It does not appear in the capital expenditure, and the matter arises in connection with credits to capital under Claim 58 (1) (b). It has not been allowed as a credit, although written out of capital expenditure.

3749. You are not claiming on it?—No, nor are we allowing anything on it. It was a credit to capital on which an allowance might have been due.

Further cross-examined by Mr. F. G. THOMAS.

3752. There is very little I want to ask you on this Statement. You have really given the information we were anxious to have. I just wanted to be clear as to the effect of one or two matters that you have just stated. May I take one of these Statements? I have the Great Western Statement in my hand at the moment—Statement "A." That sets out the various issues of capital which have been made between January, 1913, and the 31st December last under the various years. The figure which is shown in the right-hand corner—512—is the Average Cost (Yield to Purchaser). That is the average arrived at rateably as between the various types of stocks that have been issued, is it not?—Yes. It is a weighted average for the period.

3753. And on that Statement you have, as I understand, only included capital which has been actually raised. You have not included in this Statement capital which has been issued in exchange for other stock?—No. You will find that—

3754. I only just wanted to be sure. On this front page we are dealing with capital which has been actually raised?—That is so. Issues to the public, I call it.

3755. So far as we are dealing here with the capital issued to provide capital expenditure, which comes under your claim under 58 (1) (b), you are claiming 6 per cent. on your claim, whereas the cost in this particular case has worked out as 512?—Yes. But I think I explained that the years 1913 and 1914 were very much under-estimated.

3756. But this was the figure in which it was actually issued?—Yes, 6 per cent. related, of course, to this present time.

3757. But the capital was raised for these earlier years?—Yes.

3758. You have called my attention to the fact that this Statement "A" does not include all the capital which is part of your claims under (a) and (b). There is the capital which was issued by the different companies in exchange for other stock?—Yes; that is contained in Statement "B."

3759. Now I will turn to Statement "B." For the purposes of illustration this will do as well as any other. It happens to be one of the large items in the Great Western case. Statement "B": Stock issued in exchange for stocks of acquired undertakings where the expenditure is included in the claim. That means, does it not, Mr. Quirey, that this expenditure which is taken to be represented by the capital value of the stock—the nominal value of the stock—forms part of your claim under (b)?—Yes, being the value placed on the undertaking acquired.

3760. And on that also you claim the 6 per cent.?—Yes.

3761. Now that was stock which was not issued or raised in the ordinary sense of the term; it was stock that was created and issued to the existing stockholders in the Swansea Harbour undertaking, who exchanged their securities for securities of the Great Western Company?—I understand that is so. Of course I am putting this forward as being a document supplied to me.

Mr. F. G. Thomas: Yes; but I think that follows, does it not?

President: In the last column it says: "Exchanged for stocks of Swansea Harbour Trust."

Mr. Jepson: You will remember that it was stated that the Great Western had dealt with their capital differently. Whereas some of the other groups had

3760. Had it been a genuine credit to capital?—Yes, if it had been a transaction since 1913.

3761. *Mr. Jepson*: Where does that £10,000 stand now, or the £20,000? Where does that stand in the London, Scottish and Midland accounts? What is it represented by?—It stands as an asset in the balance-sheet as: Investments in other companies not charged to capital expenditure.

set out all their items, the Great Western had not done so. I do not know whether that affects this question.

3762. *Mr. F. G. Thomas*: I do not know that that would affect the particular point. I think we may take it that this additional capital would come in to the capital in the Great Western account, and, therefore, would come into the claim. Unless that was corrected, I should assume that that would be the case?—It would form part of the capital expenditure.

3763. What I rather wanted to draw your attention to was the fact that this was capital, was it not, which is claimed as being capital raised or provided, but that really the capital here was provided by the stockholders of the Swansea Harbour Trust?—Oh, no. The Swansea Harbour property was purchased by the Great Western Company and an issue of stock made as the consideration.

3764. Quite; that is to say, capital had been originally raised by the Swansea Harbour Trust, and they surrendered their undertaking in exchange for this amount of Great Western stock?—Yes; but it was a fresh issue of Great Western stock.

3765. I agree it was a fresh issue of Great Western stock. You clearly distinguish that transaction, by putting it into a separate schedule, from the stocks which were issued and which are shown on Statement "A"?—Yes. Statement "A" would be issues for cash; Statement "B," issues for kind.

3766. I think there are similar cases in the case of other companies?—Yes, but they are comparatively small.

3767. Perhaps you will clear this up with me. In the Great Western adjustment of figures on page 7, the purchase of Swansea Harbour appears in the claim—that is in Schedule "D"—as £3,618,000. Is that possibly explained by part of the consideration being in cash and part in stock?—I am not able to answer that question.

Mr. F. G. Thomas: It differs rather widely from the figure in your statement.

3768. *President*: May it not be, as in the case of the Vale of Rheidol, that the original construction cost is put in?—I would think not.

President: I do not know at all. The Vale of Rheidol was put in as something like £60,000 I think, and was purchased for £27,000, or something like that. I thought the same thing might have happened here.

Lord Advocate: The terms of the transaction are set out in the private Bill which authorised the transfer. In that it appears that the consideration for the transfer was partly the issue of this new stock and partly other considerations which were set out in the Bill. The private Bill is the Swansea Harbour Vesting Act of last session.

3769. *Mr. F. G. Thomas*: That can be looked at. But the fact is that the Great Western Company are claiming as additional capital raised or provided in Schedule "D" on a capital expenditure of £3,618,000?—That is so.

President: Were they pecuniary considerations which raised the £2,889,000 to £3,356,000?

Lord Advocate: There were arrears of debenture interest included and redemption of mortgages and repayment of loans. Those were the three heads which brought the figure up from the first figure you have mentioned to the larger figure.

Mr. F. G. Thomas: Am I to take it that it was an actual payment out of money?

19 June, 1924.]

Mr. JOHN QUIREY.

[Continued.]

Lord Advocate: We will get a copy of the Act.

Mr. Jepson: Before you go away from that, would you clear up the point about the Vale of Rheidol? It is on page 12 of the statement. It is put in, as £69,267, as unremunerative capital. As regards this Statement "B" that is put in, the amount of Great Western stock issued for the stocks of the Vale of Rheidol Railway was £27,000.

3770. *Mr. F. G. Thomas:* What is the explanation, Mr. Quirey, of that?—These were the stocks of the Cambrian Company issued for the Vale of Rheidol Railway; but the undertaking was, no doubt, purchased at a discount.

3771. *President:* You will see that at page 111, Question 1842 and following questions?—That was dealt with my Mr. Cope. I do not know the facts relating to that.

President: I think thereabouts you will find it.

Mr. F. G. Thomas: Yes; apparently the position there was that this undertaking which is made the subject of a claim in respect of £69,267 was purchased for £27,000.

President: There was a balance subsequently of £1,354 paid. You will find that at Question 1856.

Witness: That subject was dealt with by Mr. Cope in his examination.

Further cross-examined by Mr. WROTTESELEY.

3775. Just to make sure that I understand your corrections and amendments, do you mind taking your table "J.Q. 5 (Amended)" and looking at page 2 of it. You see there the words in the left-hand column: "Proceeds of new capital raised," and then in brackets, "(excluding stocks issued in exchange for stocks of other undertakings where expenditure is not included in claims under 53 (1) (a) or 59 (1) (b))." Now, do those words contain the explanation of all the amendments? Is that the only respect in which the claim is amended?—That is the main cause of the amendment. There was a slight mistake in the London, Midland and Scottish of £7,000. That is the only other amendment.

3776. With that exception then, the key to the amendment lies with those words in brackets on page 2?—That is so, and the amounts excluded are contained in Statement "C" attached to each company's documents.

3777. Which you have given us to-day?—Which have been put in to-day.

3778. Perhaps you would turn to Statement "A" of the London and North Eastern Railway. I just want to see that I understand that. In 1920 capital appears to have been raised either by Loans, Debenture Stock or Preference Stock or by what you call Undivided Ordinary Stock. Perhaps you would not mind telling us what Undivided Ordinary Stock is?—The transactions of the North Eastern embraced Preferred Ordinary and Deferred Ordinary. I did not have the particulars given to me separately and I put it into one column and called it "Undivided." I could not do otherwise.

3779. That is the meaning of "undivided ordinary" there?—Yes.

3780. Will you explain how it comes about that, in the year 1920, whereas what you call the Average Cost (Yield to Lender) was 5.83 on loans, on debenture stock the yield was 6.93, while preference stock is cheaper, namely, 6.79?—I think you will get that explained. I think the explanation will be in Schedule 4. It will be a comparison of Schedules 2 and 3.

3781. The first item is curious, is it not?—Yes; but it depends entirely upon the financial standing of the company issuing in 1920.

3782. The financial standing of the borrower?—Yes. You will see, for example, the cause of the increase in the debenture stock is due to the Humber Commercial Railway and Dock having made an issue at 7 per cent. for the large sum of £719,000.

3772. *Mr. F. G. Thomas:* Yes; there is a balance figure there of £1,354; so that if that figure of £1,354 was added to the figure of £27,711 that makes an actual figure of about £29,000 as compared with the £69,000 which is the subject of the claim under "C"?—Yes. The substitution of £29,000 for £69,000 would take about £400 off the claim, if it were done.

3773. You would not dispute that it had been done?—I cannot agree to that. It is the Great Western Company's concern.

3774. Then you have another statement which deals with capital expenditure which is not included in the claim. I am not quite sure that I follow that. Perhaps you will explain how that has arisen? Is that one of the factors that make it necessary for you to re-adjust your figures?—No. That is simply a statement to enable the accountants to go into the matter to balance the receipts of the various companies from 1913 to 1923 with the figures that we have put in. We do not make any claim in respect of those. Take the Great Western Company's Statement "C." The capital receipts of the Great Western Company between 1913 and 1923 contained a sum of £30,211. Now I cannot set that amount against the expenditure included in (1) (a) and (1) (b), so I have excluded it and put it into a statement to show that that has been done.

3783. And these figures throughout, therefore, have to be considered with the qualification that they represent loans or issues of capital by companies of very different standing?—Yes; that is why I have supplied the schedules showing the information.

3784. That is why you have given us the analysis?—If you please.

3785. You will appreciate that in 1922 I see something rather of the same kind. Is that due to the same cause? I am again dealing with the London and North Eastern Railway undertaking. Whereas the loans were raised at 5½ per cent., the debenture stock was 5.62 and the preference stock was 5.17. What is the explanation of that?—The loans were made by the North British Company at 5½ per cent. The debenture stock was very largely Great Eastern. It seems to be at something under 70, which would give us about the 5.62, I think.

3786. What would be the issue of Preference stock? That cost a good deal less?—That was the North Eastern Company.

3787. Of course, when you come to compare the averages at the bottom they are not very valuable really, are they?—They are not of any great value.

3788. Will you now turn to the London, Midland and Scottish to clear up one or two little matters there? Now that I have asked you these questions, I will have an opportunity later of digesting these tables?—They are large, and rather complicated.

3789. Look at the years 1921 and 1922 of the London, Midland and Scottish statement. You see there one large sum. Mostly they are very small sums, but the rates of interest run up to very large figures—11.5 and 12—in the case of Deferred Ordinary stock. Can you tell me whether those transactions were amalgamation transactions?—They were not in connection with amalgamation. If you will look at Schedule 5 and Schedule 6, these are the matters that I was referring to when Sir Douglas was examining me with regard to capital issued. You will see those issues are entirely Midland Company issues, and from 1917 onwards those would be levelling up of holdings of pounds, shillings and pence into round pounds.

3790. Levelling up transactions, do you say?—Levelling up transactions of pounds, shillings and pence into round pounds.

3791. There again they are not figures of any great value with regard to the cost or yield?—No; the amounts are so small.

19 June, 1924.]

Mr. JOHN QUIREY.

[Continued.]

3792. There is one other question with regard to a little matter that I asked you about earlier. There was a certain slight adjustment which had to be made, I think, with regard to the Benfleet work?—We have got to strike that out of our claim under 58 (l) (c). I think there was an error also in that that was discovered. I am to be informed as to the figure later on. We will make the amendment.

Mr. Stafford Cripps: May I mention again my question with regard to the minutes which my learned friend, Mr. Clouston, told me had been forwarded. A letter has been received, and it contains only two minutes. I am not informed whether they are the only minutes which deal with the matter or whether there are others.

Mr. Clouston: We have provided two minutes, both of the 10th March, 1899. The one states the total amount expended, and the other states that the London Extension has just been opened. Now over a series of years there are a large number of minutes dealing with particular contracts for expenditure on this line.

President: You have not told me what line it is. *Mr. Clouston:* The London extension of the Great Central. I quite agree there are many minutes. I dare say there are a dozen and possibly hundreds of those minutes. If Mr. Cripps's clients would go to Marylebone Station, they can look at the whole of the minutes, and copies can be made of those they require; but to set to and make copies of them all, I think, is a burden which it is hardly reasonable to ask us to undertake. If my friend's clients will accept that offer, we will do the best we can for him.

Mr. Stafford Cripps: I am afraid my clients will not accept that offer. May I put before you the position as it stands? On the 30th May, at page 140 of the proceedings, Question 2728, I put a question to Mr. Williams. The question which I was putting then to Mr. Williams was as to what his idea of "a work" was which exceeded £25,000 under 58 (l) (c). My question was: "I cannot quite appreciate from the answers which you have given what you understand by the expression 'a work.' Will you tell me?—We have looked at it as being one work at one consideration by a Special Board Minute. 2729. It must be a special board meeting?—A special board minute. 2730. An ordinary board minute?—Yes. 2731. Have you got some of those authorisations so that I can see them, because I should like to see the form of them?—I am afraid I have not. 2732. Perhaps you could get some?—I could do so, yes. 2733. And would you particularly let me see those which are mentioned on page 29, for instance, the Nottingham Joint Station Committee and the Cheshire Lines Committee, and those mentioned under the Great Central Railway, the London Extension? That is on pages 24 and 29?—Do you wish to have the whole of those?" and I said: "If you please." Now, according to the evidence there given, each of these works is authorised by one minute passed by the directors at a board meeting. I am anxious to have these minutes. I am anxious to see the form of the authorisation and I am anxious to see the amounts which were authorised. All that has been provided at the present moment is a minute in this form. This is the first form: "No. 848. It was reported that the amount received to the 25th February in connection with the works of the London Extension Line was £8,490,825, and the amount expended, £10,869,273 13s. 10d.; over expended £2,819,448 13s. 10d." That seems to me to

have absolutely no relation to any authorisation of expenditure at all. The second minute is in these terms: "851. The General Manager explained that a letter from the Secretary of the Metropolitan Company as to the company's obligations to the Nottingham Corporation, and to the payment of interest in respect of railway No. 8, had been submitted to a Special Meeting of the Board, the minutes of which had been read. Mr. Bell did not write the Board of Trade in the terms which he had intimated he would do, but addressed to them a letter practically of a similar character protesting against the Board of Trade at present sanctioning the opening of the Extension to London line. That department had, however forwarded to Mr. Pollitt the necessary certificate authorising the opening of the line on the 9th instant, and the Right Hon. C. T. Ritchie had, as the Directors were aware, yesterday performed the inaugural ceremony at Marylebone Station. The Chairman, on behalf of the Board, expressed their appreciation of the admirable manner in which Mr. Pollitt had carried out the arrangements." I cannot see any authorisation of expenditure in that, and what I am anxious to do, if my learned friend is not going to produce any further authorisations, is to put certain questions to Mr. Quirey.

Lord Advocate: First of all, these questions cannot be answered by Mr. Quirey, because the witness who was under examination, then by my learned friend was Mr. Williams, of the London and North Eastern. In the next place, if you will look at Question 2735 you will see that Mr. Williams said he was by no means certain that any particular sum had been ordered by one minute of the Board. However, my friend said he wanted to have access to the whole of them and I cannot conceive of a better offer than to allow my friend to explore the minute book.

President: But unless the minutes are indexed, or someone is placed at his disposal to point out where the authorisations are it would be a very difficult task.

Lord Advocate: Certainly. What I contemplated was that in regard to any particular items on which he said, "I want to see the minutes referable to that particular work," a clerk would show him all the minutes relating to those particular works. It might take 15 written minutes to do it. I cannot see that any purpose would be served by our being in fact required to produce to this Tribunal every minute referable to every work which is included in the whole of this Schedule. I am prepared to say, however, that my friend can send over his detective to the premises and he will have the information given to him with regard to any work he wants to enquire about. We will show him the minutes authorising it. The minute he has in his hand is the one on the opening of the work. If he wants more he can have them.

Mr. Stafford Cripps: What was asked for in the letter which we wrote was the minutes referred to in Questions 2728 and 2735, and the minutes quite clearly are the minutes authorising the expenditure. I put two questions to Mr. Quirey and that is why I want to ask your permission to put further questions on these two documents. At Question 1165 I asked Mr. Quirey what he understands "a work" to mean, and Mr. Quirey told us it was a work as ordered by the Board of Directors. Subject to your permission, Sir, I should like to put some questions to Mr. Quirey on these two documents.

President: Very well; if he can tell you anything about them.

Cross-examined by Mr. STAFFORD CRIPPS.

3793. Mr. Quirey, would you look at these two documents? (*Same handed to witness.*) Are those the sort of orders by the Board of Directors that you were referring to in your answer to Questions 1165 on the 29th May?—No. I am looking at the first one only.

3794. Will you look at both of them, please. Are those the sort of documents to which you were referring when you talked of orders by the Board of

Directors?—It is not the class of minute that I would have had on the Midland Railway for the authorisation of a work.

3795. In fact, it was not the sort of document you referred to in your answer to Question 1165?—That is so.

3796. *Mr. Jepson:* Can you tell us what is the general practice on the railway, say, when they are making an extensive railway such as the Great Cen-

19 June, 1924.]

Mr. JOHN QUIREY.

[Continued.]

tral extension to London? What would be the first thing that came before the board for authorisation?—I should say the matter would be considered by the board.

3797. Would not they have an estimate from their engineer, which would have to be prepared, of course, for Parliamentary proceedings, of the cost of buying the land and the cost of construction, and is it not the usual practice to proceed by lengths?—Oh, undoubtedly.

3798. And to let contracts for various lengths so as to make up the whole?—Yes.

3799. Then would you consider, after that has been authorised either as a whole or in lengths, that the recording on the minutes of a special contract for £20,000 for some particular earth work would be treated as a separate work?—No; it would be part of the general work; it would be part of the whole work.

Mr. Jepson: Is not that the main difference, Mr. Cripps? You found a difficulty in getting an answer from Mr. Williams. Mr. Williams seemed to say that there would be a board minute for each particular expenditure, and that would mean the "work." But if you found as a result of your examination that a length of railway costing £2,000,000 or £3,000,000 was generally authorised by the company, and then, after that, the contracts for certain portions of that were authorised by the board of directors, would you then say that because one section came below £25,000 it would not be properly included in this, although it was part of the whole?

Mr. Stafford Cripps: My answer to that is that I have asked the witnesses who have come up from the railway companies what they have taken as being "a work" in arriving at the figures which they have drawn up in the Schedules. I have been told by both of them that what they have taken as being "a work" is that it was ordered or authorised by a minute of the board of directors. I wish to know the dates when those minutes were made. They must have had the figures in order to make out their claim, and there cannot be any difficulty in producing them.

Mr. Jepson: I think there has been some little misunderstanding. I think when the general manager comes into the box he will be quite *au fait* with all those things and we can get it from him.

(The Witness withdrew.)

Sir Douglas Hogg: My learned friend the Lord Advocate was not here this morning, but he was very ably represented, and no doubt he will have been told that Sir William Plender was asked by me as to his having been spoken of by Mr. Cope as being the gentleman who settled the leading figure of 112 for the Great Western Railway. I cross-examined Mr. Cope at Question 3304. Mr. Cope said, with regard to the £5,000,000 to which I was referring, that they consulted an expert (who turned out to be Sir William Plender), and got his figure and applied that figure, and in that way got at the proper sum. Sir William Plender says there is a mistake about that. What happened was that Mr. Cope fixed the figure, told Sir William what it was, and that Sir William merely accepted Mr. Cope's assurance that the figure had been ascertained on a proper basis; and I was anxious, for reasons which will be apparent to the Tribunal, to ascertain what the figure was, and how it was arrived at. I should like at some stage for Mr. Cope to come back with his memory refreshed by Sir William Plender's statement.

Lord Advocate: Mr. Cope is not here this afternoon, but I will see that he is brought here to deal with what you desire.

Sir Douglas Hogg: That would be desirable.

Mr. Stafford Cripps: These witnesses have told me they made up the accounts, and I should have thought they were the proper people to ask.

The Witness: I made up the claim of the L.M.S., and I am only speaking with regard to the class of minute I would have had from my own company.

Mr. Stafford Cripps: Quite.

3800. The Lord Advocate: Perhaps you would tell us what you do?—It would be an order of the board that the Way and Works Committee should undertake a certain work. I never was concerned with such a large work as the extension of the Great Central Railway to London, but the subject would come forward first of all from a Committee of the Directors—the Way and Works Committee if it were an engineering work. It would be accompanied by a report showing the necessity for the work, together with an estimate of its cost and the proposed appropriation of the estimate on the capital and revenue account. The Board would then authorise the construction of the work, and the carrying out of the work would be referred to the Way and Works Committee.

Mr. Stafford Cripps: I should like to have access to the documents to which Mr. Quirey referred.

President: I have consulted my colleagues, and they think the best way would be for you to avail yourself of the offer the railway companies have made: that they should place at your disposal a clerk who is conversant with the books and who will assist your representative to trace the minutes you want. Then they will be copied and you will have what you want. We think, so long as you are at arm's length, it may be that another request to them will furnish you with something that you think is unsatisfactory. We think it is on the whole the best and the wisest course for you to send your representative with instructions to see the books. If you find any difficulty in getting the information that you want, perhaps you would communicate with us later.

Mr. Stafford Cripps: If you please. May I also ask you whether I shall be able to put those minutes to Mr. Quirey or some other representative of the railway companies?

President: Yes; if there is any difficulty we will ask for the railway witnesses to be produced for you again so that you can put your questions.

Mr. Stafford Cripps: If you please.

Chairman: After considering the minutes.

Lord Advocate: If there is any misunderstanding, Mr. Cope shall be at your disposal.

Sir Douglas Hogg: I thought it would be convenient to mention it to you. Then there is one other matter, if I might mention it. Mr. Quirey has not produced one other statement for which I asked. That is the dates of the capital claimed under 53 (1) (b). You will remember I called attention to the fact that whereas the free reserves were mostly created out of moneys only received after August, 1921, the expenditure, very likely, at any rate, was much before that date, when the free reserves were not available. We were assured that we would have a statement of the dates when the capital was spent so that we might see what the free reserves available at the time were to complete those expenditures.

President: I think it was said it could be dated.

Sir Douglas Hogg: It was said that it could be and would be. Very likely it has been got out, but I thought it might have been overlooked perhaps.

Mr. Worrall: Might I ask a few supplementary questions?

President: I think we must deal with one subject at a time.

Lord Advocate: Will you give me the reference to what Mr. Quirey said?

Sir Douglas Hogg: I have not got the reference to the shorthand notes, but I am quite certain that I

19 June, 1924.]

MR. JOHN QUIREY.

[Continued.]

did ask for it, and one of your witnesses said I should have it.

Lord Advocate: It is one thing to ask and it is another thing whether Mr. Quirey gave an undertaking to produce it.

Sir Douglas Hogg: I am not sure whether it was Mr. Quirey or another witness; but I am sure I did ask for, and was told I should have, the dates on which the capital was raised, for the reasons I have indicated. I am not sure that it was Mr. Quirey. At any rate, may I state now what I desire to have? In these statements with which we have been furnished in Schedule "A" we have set out large sums of money alleged to have been spent by way of additional capital, and it is claimed that those moneys are to be deemed to be provided out of free reserves, or rather out of the increased free reserves. What I desire to have is the dates on which these moneys were spent and the dates on which the free reserves were provided, so that I may see whether there were any free reserves at the time this money was spent. If we could have Schedule "D" stated in the same way as Schedule "E" was, that would be convenient.

President: Will you not find it on page 73, at Question 774?

Sir Douglas Hogg: Yes; I am very much obliged—at Question 780.

President: There is one at page 73, Question 774: "We have not got the dates of them all. They are in alphabetical order, I think, are they not, under

each railway?—Yes." That, I think, is what Sir Douglas Hogg has in mind. There were other passages.

Sir Douglas Hogg: Yes. I see at the bottom of the page, at Question 777, I say: "At some period I suppose you will be able to give us some little detail as to when this capital expenditure occurred. There is no date here at all?—It would be a very difficult matter. (778.) It is very difficult to check it to see whether it comes within the Statute or not until we know something about the date when it was incurred." Then I said at Question 782: "That is what I was asking for. You could furnish that quite easily—I think that is what was being done by the accountants representing the traders who examined our books." That is one passage. I am much obliged to you, Sir, for pointing that out. I feel confident there was another later on. At that time it was not so clearly impressed in my mind. The point about free reserves emerged rather later in the case.

President: That is the best I can do for you.

Sir Douglas Hogg: I am obliged to you, Sir. Whether I asked or not—

Lord Advocate: We will not make a point about that. The best plan would be, if I may say so to my friend, for him to ask a question of Mr. Quirey as to exactly what he wants, if Mr. Quirey may be allowed to go back into the box.

MR. JOHN QUIREY, re-called.

Further cross-examined by Sir Douglas Hogg.

3301. You remember, Mr. Quirey, that under your Schedule D you give us the works' expenditure in respect of which you claim for additional remuneration?—Yes.

3302. Section 58 (1) (b), remuneration. In those figures you give us no figures at all as to when it was that the expenditure was incurred, as you do in Schedule E, for instance, when you are dealing with your similar claim for additional remuneration for inadequate fructification?—Yes.

3303. You are claiming, as I understand, that the moneys spent under Section 58 (1) (b)—the moneys in Schedule D—must be treated notionally as being spent out of an increase in free reserves which you have shown in one of your statements has amounted to a great many millions of pounds?—Yes; I put the expenditure under 1 (a) and 1 (b) and compared that with capital raised plus capital provided on free reserves.

3304. What you are comparing is, that inasmuch as there was an increase in the free reserves between 1913 and 1923, sufficient in the case of two of the railways to cover the total expenditure, one must be treated as notionally made out of the other?—That is so.

3305. Obviously, in order to see whether that can be so or not, it would be useful to see when the free reserve reached the railway company and when it was that they incurred the expenditure?—Of course the expenditure may have been made out of moneys representing other free reserves earlier in the period, and replacement made later.

3306. If there was a replacement we should like to see it. At present, as far as the information you have been good enough to give us is concerned, there is no trace of any replacement from one fund to another; and I understand there was not?—You have not had a statement of the amount of free reserves of each year, either.

3307. No. And we have not had any statement to show what expenditure was incurred in each year?—That is so.

Further cross-examined by Mr. Worrall.

3311. I think the way in which you have arrived at these free reserves is really by taking "J.Q. 5"—£18,000,000—that is, the capital which you can ear-

3308. What I am asking for, first of all, is that your Schedule D should be treated in the same sort of way as Schedule E; and, secondly, that you should tell us the free reserves at the end of six months if that is not too laborious, or 12 months if it is?—The accounts are made up annually.

3309. I do not want to press for anything that is unreasonable. I do not think we have so far?—I will not say it is unreasonable, but it is a big job to get this scheduled—set up under dates. I should like to ask for some time to get this work in hand.

Mr. Locket: Sir Douglas, would it meet your view if we had the amount of the capital expenditure of each year for each of the railways?

Sir Douglas Hogg: I think so; subject to this, that we cannot check it at all.

Mr. Locket: And also the amount of the increase in the free reserves in each year. You do not want to go into all these different items, do you?

Sir Douglas Hogg: Except for the purpose of examining this. For discussing it, no. I suppose our accountants would have to see it at some period, and would have to check the statement and see the dates. But I do not want you, Mr. Quirey, to tabulate an enormous thing at this stage. Can you give what Mr. Locket has been kind enough to suggest—that is to say, the capital expenditure in each year, the aggregate of which would amount to your Schedule D, with the increase of free reserves during the same year?

Witness: I shall look into it and see what we can possibly get out.

3310. You see what I wish to arrive at?—You shall have it as soon as we can possibly do it; but you will not complain if there is any little delay?

Sir Douglas Hogg: No; as long as I have made it known to you what I want and the purpose for which I want it.

mark; then you make a hypothetical calculation of the other £32,000,000, the free reserves. It is really an approximation, not an actual calculation. I have

19 June, 1924.]

Mr. JOHN QUIREY.

[Continued.]

not the amended "J.Q. 5," but I shall have it, I take it, Mr. President. Is that so?—I do not quite understand your question.

3812. You have got your free reserves calculated at the end of "J.Q. 1" and "J.Q. 5." There is some relation between the two?—Do you mean the sum of £32,135,136?

3813. Yes, that is right. That is the total of free reserves?—No, that is the increase in free reserves—

Sir RALPH LEWIS WEDGWOOD, O.B., C.M.G., S.W.O.R.

Examined by The LORD ADVOCATE.

3817. Have you been the Chief General Manager of the London and North Eastern Railway Company since the amalgamation of the constituent companies on the 1st January, 1923?—Yes.

3818. Before that, were you General Manager of the late North Eastern Railway Company?—Yes, for one year—for the year 1922.

3819. You had been in the Company's service, of course, for many years before?—Yes.

3820. Are you also Chairman of the Special Committee, known as the Rates and Charges Committee, which has been nominated by the railway companies to deal with the question of Rates Revision generally on their behalf?—I am.

3821. Have you throughout been in touch with the whole course of the proceedings relating to the Revision of Rates?—That is so.

3822. I think you have already given evidence on several occasions at different stages of the matter?—Yes.

3823. Has the present stage of the proceedings, the fixing of the Standard Revenue, been occupying the railway companies for a considerable time?—Yes, we have been engaged on it for upwards of 12 months.

3824. I think it would be proper for you to explain how you have addressed yourselves to the problem and the procedure you have adopted to eliminate so far as might be the element of controversy. What have you done?—During the whole of that period we have been in close touch with the Traders' Co-ordinating Committee, which acts for the traders, with the object of trying to eliminate as many as possible of the points of disagreement.

3825. Has that been a feature of this whole question of Revision throughout, that the Traders' Co-ordinating Committee has been in close contact with the Railway Rates and Charges Committee?—Yes, throughout we have kept in close touch with the Traders' Co-ordinating Committee.

3826. Has that practice been one which has proved useful in the course of the investigations?—I think I can say so. Certainly from the railway companies' point of view we have welcomed the opportunity.

3827. Moreover, the practice of negotiation before we come before the Tribunal had, I think, the express recommendation of the Tribunal in February, 1923?—In February, 1923, I think the President of the Tribunal expressed a desire that the different parties should come together as much as possible to agree as much as possible.

3828. Sir Douglas Hogg: I think both sides have tried to be reasonable—I can answer for your side, and, I hope, for my own.

3829. Lord Advocate: Of course you recognise—no one better—the intricacy and the importance of the issues at stake in the Inquiry?—Yes. This particular stage involves a great many extremely difficult and intricate problems.

3830. As regards the course of proceedings, at an early stage were figures placed before the representatives of the Traders' Co-ordinating Committee?—Yes. I think I am right in saying that about 12 months ago we submitted a table of figures to them.

3831. While the figures which are before the Tribunal to-day in the completed different-coloured books are now grouped finally, have the ingredients in those calculations been submitted and discussed between you and the Co-ordinating Committee for

3814. Hypothetical?—No, not at all. The actual increase in free reserves from the 1st January, 1913, to the 31st of December, 1923.

3815. Then there is no trouble to analyse it if it is actual?—Analyse it in what way?

3816. To show the years, and so on?—Yes, I have promised to do that.

Mr. Worrall: May I have a copy of that, Sir.

President: It will be in the print to-morrow.

months back?—The figures as now submitted differ in many respects from those we began the discussion with 12 months ago; but in principle they are substantially the same—in the main principles.

3832. So far as the principles involved in the construction of these tables are concerned, these are the principles which have been in discussion between you and the Traders' Co-ordinating Committee?—Yes. I do not at the moment recall any main principles where they have been modified.

3833. Have there been alterations, however, in the figures?—Yes, for various reasons.

3834. Moreover, have you endeavoured to give every facility to the accountants nominated by the Traders' Co-ordinating Committee?—Yes. We have met them as members of the Traders' Co-ordinating Committee, and I think I am right in saying as a Special Sub-Committee; and we have given them every facility for going through our books to see that the figures we put up were genuine and accurate figures; and they have availed themselves largely of those opportunities.

3835. You could have done so to an even larger extent if they so desired?—Yes, we would have been willing to give them, to any extent they desired, the opportunity of going through our books.

3836. So that there has been really no element of novelty in the exposition which has been made through preceding witnesses of the principle on which these accounts have been prepared?—No; they have been before us all for some time.

3837. It is merely bringing the discussion up to date?—Yes.

3838. There is one matter which was reserved for you to deal with, and that was the question of a possible claim under Section 53, the proviso which comes immediately after Sub-section (1) (c)—the economies claim which has not been as yet compiled and entered in folio 1 of the railway companies' table?—No, we have not as yet submitted any claim under that head. We have given consideration to the point; and at the time when the figures were first submitted to the Traders, of course it was shortly after the amalgamation, and we felt that in the first instance the economies effected at that date would be limited in amount.

3839. Did you expect that the economies would appear later, as the effect of the amalgamation came to be felt?—Yes; we had reason to anticipate that they would come in in accelerating ratio later, as we were able to get the amalgamation arrangements more or less settled.

3840. Are the questions involved in the compiling of a claim under that proviso in any way cognate to the questions which arise on the heads of claim which we have at this stage submitted to the Tribunal?—Not so far as I see at present. The questions at stake there will be questions affecting working expenses, or at any rate akin to the question, and will again offer a discussion on working expenses.

3841. Do you think that a discussion of that item would more appropriately find its place at the next stage, when the working expenses of the companies will have to be considered in order to arrive at gross revenue?—It seems to me more appropriate to come in at that stage, and will involve less going over the ground twice. Perhaps I might add that, as time goes on, one will be able to put up a much more satisfactory proof that the economy has been effected

19 June, 1924.]

SIR RALPH LEWIS WEDGWOOD, C.B., C.M.G.

[Continued.]

than if you endeavoured to crystallise it at the very moment when the re-organisation from which it perhaps results begins to operate.

3842. Do you think the postponement of the qualification of that element will affect in any way the determination of the questions now before the Tribunal on the other items of claim?—I do not at present see that it can affect them.

3843. Do you accordingly submit that the convenient time to consider the question of economies is when the question of the working expenses comes to be dealt with at a later stage?—Yes, I think so.

3844. Would the adoption of that course save a great deal of clerical effort and duplication of clerical effort?—The actual calculation and submission of the economies will involve a great deal of clerical effort in very great detail.

3845. The learned Solicitor-General asked, I think, whether the companies could indicate to the satisfaction of the Minister of Transport whether claims were in point of fact to be put in under that head. What do you say as to that?—Claims will be put in under that head. You can take that for certain.

3846. In this matter we are in the hands of the Tribunal as to whether it will be essential to formulate those claims now. But do you think it would be more expedient to postpone them?—Absolutely. We can undertake to put our claim in hand and submit it with as little delay as possible; but it will involve a great deal of labour of a very detailed description, which the railway companies are anxious to avoid at the present time when their accountants and their staffs are fully engaged with the many important questions arising out of the Inquiry under the other items, 58 (1) (a), (b), and (c).

3847. Of course, under the next stage we shall have to consider, shall we not, efficient working as one of the things to which attention is directed?—Yes.

3848. At that stage, when you are considering the gross revenue, the working expenses, and efficient working, will it be then that your accountants will be addressing themselves to the question of the economies?—Yes; it would be a question of what the expenses would have been if it had not been for these economies.

3849. Therefore you desire, if the Tribunal approve, to postpone formulating your claim at this stage?—Yes; that is our desire and our suggestion.

3850. The next matter which was specifically referred to was the question of maintenance and depreciation?—Yes.

3851. You will recall that Sir William Plender gave it as his opinion that the methods of charges for maintenance and depreciation in 1923, however much they might differ in detail from the methods in force in 1913 amongst the constituents and subsidiary companies, do not differ when allowance is made for increased costs?—Yes. I think his evidence was to the effect that they were equivalent.

President: Without disturbing your examination, Lord Advocate, could you develop with the witness in a little more detail exactly what you propose to do with regard to depreciation? I mean, various questions have been asked: Are you going to adopt the same scale? Are you going to do this, or are you going to do that? It is left after your opening—I dare say quite advisably—rather at large what you are going to do. You have included in net revenue a sum for depreciation in 1913.

Lord Advocate: Yes.

President: With other items which you are going to charge at a different scale; you have written them off and written them in. You have written off the working expenses; you will have to write them back

again at a higher figure in 1913. With regard to what I may call the "paid outs," you have written them off, and you will have to write them in as to what they will be actually. With regard to depreciation, it is left in the lump sum of net revenue. How are you going to deal with that? That is what I want you to address your mind to at the moment; because it is rather left at large, even at the present time, after your opening and after all the witnesses have been called. So if you could develop it with this witness and tell us exactly what you propose to do, it would help to clear our minds and enable your opponents on the other side to see exactly where they are.

Lord Advocate: What I must confess I have been impressed with in my friends' cross-examination—and so, I think, have my witnesses—is that it is proper that, when you are fixing the standard on a 1913 basis, comparable methods should be observed in 1924 or 1925, or other years; and I am concerned to secure that result if I can. Of course, it is very difficult, as you will appreciate, Sir, when you are not comparing the history of one company throughout but comparing what is to be done by one company with what has been done by a whole series of different companies which have been amalgamated into that company.

President: I quite see that. It is rather with the question of method—what you are going to do actually. How you are going to treat it. With regard to the other items which come in at a higher charge, you have first written them out and you are going to write them back. You have not done that; you have included it in your net revenue. How are you going to deal with it? Perhaps you would like to consider this question with the witness before you proceed with the examination; because it is one of the questions which have been present to our minds and which seems to be present to the minds of your opponents; and if between now and to-morrow you could, through this witness, give us—

Lord Advocate:—a policy with regard to depreciation?

President: The whole thing; exactly what you have in your mind to do, and how you propose to deal with it, and explain it in the same detail as you have explained the other items. I beg your pardon if I am interrupting you.

Lord Advocate: What is to be our policy in the matter of depreciation, and whether it is a sound policy and will give a fair basis of comparison?

Sir Douglas Hogg: What we want to ensure is that we are comparing like with like, and that when we are getting the 1913 revenue, which is a fixed figure when once arrived at, we are not called upon to compare that with an item in, say, 1925, or 1926, which may be fair in that year but which is arrived at on a totally different basis.

Lord Advocate: Mr. Quirey put it during cross-examination by Sir Douglas Hogg; the proper thing is to have the later year put in relation to 1913. And then you "came at him again" and said the basis should be the same. It is manifest that your point is one to which we must attend.

President: Just show how you will do that.

Lord Advocate: Yes, Sir. I will endeavour to get from Mr. Wedgwood his policy in the matter of depreciation and how the thing is to be done in the companies' administration.

President: I hope I have not interrupted you.

Lord Advocate: Not at all; it is helpful to know what is in your mind, Sir, and in the minds of my friends.

(Adjourned till to-morrow at 10.30 a.m.)

Erratum.

In the correction appearing at the bottom of page 166, for "warehouse" read "warehouses."

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